THE FREEMAN

IDEAS ON LIBERTY

School for Scandal

What's Your Problem?

A Checklist for Healthy Skeptics

The Big Nag

NOVEMBER 1991

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THE FOUNDATION FOR ECONOMIC EDUCATION, INC. Irvington-on-Hudson, New York 10533

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THE MARKET AND MOTHER NATURE:

Responses of a Free Society to Environmental Concerns

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PERSPECTIVE

Double Standard

In October 1990, the *Anchorage Daily News* and the *Anchorage Times,* two of Exxon's most strident critics since the 1989 *Valdez* oil spill in Prince William Sound, reported that Federally funded researchers killed hundreds of birds and animals in an attempt to bolster the government's case against the oil producer. The issue has received limited coverage in the national press, and little or no comment from animal rights and environmental special interest groups. . . .

A review of the reported facts surrounding this startling, and possibly illegal, use of taxpayers' money:

- The Justice Department determined that, to get higher damages, it needed a reliable scientific model to prove that the *Valdez* accident killed over 100,000-300,000 unrecovered birds that they believe floated out to sea.
- Justice ordered the Interior Department's U.S. Fish and Wildlife Service (FWS) to conduct Bird Study No. 1. The study consisted of killing birds, dunking them in oil, planting them with transmitters, and depositing them in the water. Once recovered, the scientists could supposedly [estimate] how many birds drifted away and sunk after the spill.
- FWS approved a $600,000 contract with a Portland, Oregon, research company, Ecological Consulting Inc., to kill up to 350 birds.
- The hired killers shot 250-350 murres, scoters, cormorants, and ancient murrelets on remote Alaskan islands, many of them protected national wildlife refuges, and returned them for use in the study.
- The Alaska Department of Fish and Game killed an equal number of ducks for the same purpose, along with 32 deer, 28 harbor seals, three sea otters and minks, and 17 Stellar's sea lions recently listed as a threatened species, to further their case against Exxon. . . .

By way of contrast, the killing of birds by private landowners has been taken quite seriously by Justice. In one case, a Springfield, Illinois, resident was ordered by local officials to "get rid of"

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unruly pigeons that congregated in his trees. The resident, Mr. Harvey Von Fossan, laid out poison for the birds, which was unwittingly eaten by two common grackles and a mourning dove, killing them instead. An outraged neighbor informed the U.S. Attorney's office, which prosecuted Mr. Von Fossan under the Migratory Bird Treaty. The action, one government attorney stated, was "one of the most important cases" in his office. In another case, the government vigorously prosecuted the owner of a million-dollar goldfish farm for killing birds that were devouring his crop. Both landowners were found guilty, with Mr. Von Fossan receiving a suspended sentence and a fine, and the goldfish farmer a fine and a jail sentence.

—GLENN G. LAMMI
Washington Legal Foundation

Affirmative Action

I hold that we blacks ought not to allow ourselves to become ever-ready doomsayers, always alert to exploit black suffering by offering it up to more or less sympathetic whites as a justification for incremental monetary transfers. Such a posture seems to show a fundamental lack of confidence in the ability of blacks to make it in America, as so many millions of immigrants have done and continue to do. Even if this method were to succeed in gaining the money, it is impossible that true equality of status in American society could lie at the end of such a road.

Much of the current, quite heated debate over affirmative action reveals a similar lack of confidence in the capabilities of blacks to compete in American society. My concern is with the inconsistency between the broad reliance on quotas by blacks, and the attainment of "true equality." There is a sense in which the demand for quotas, which many see as the only path to equality for blacks, concedes at the outset the impossibility that blacks could ever be truly equal citizens.

—GLENN LOURY, speaking at the Heritage Foundation, quoted in the Spring 1991 issue of *Issues & Views*

Don't Judge Motives

By judging our motives rather than our actions, we can assuage all guilt over any action or inaction. *Everybody* thinks his motives are pure and good. And on a conscious level, they probably are.

That's why motives just aren't the issue. What we do, not what we intend, is what counts.

On the global level, assessing motives rather than actions has led to serious moral distortions. A particularly important example concerns assessments of capitalism and Communism.

Communism has resulted in the loss of freedom by more nations and the deaths of more individuals than has any other doctrine in human history. Yet because it is perceived as emanating from good *motives*—abolition of poverty, greater equality—many people refuse to accord it the antipathy that its *deeds* deserve.

Capitalism, on the other hand, has led to greater freedom and to less poverty than perhaps any other political-economic doctrine in history. Presumably, it ought to be widely admired. Yet it is often vilified and even its supporters rarely consider capitalism to be a particularly moral system. The reason? It is based on selfish motives.

Defense of Communism and opposition to capitalism emanate from the same flaw—assessing motives, not results.

—DENNIS PRAGER, writing in his quarterly journal, *Ultimate Issues* (6020 Washington Boulevard, Culver City, CA 90232)

Managed Trade

Over the long run, managed trade has proved a disaster. Lacking both competition and access to modern technology, Eastern Europe was never disciplined for delivering computers that were instant museum pieces or cars that belched rotten-egg fumes. When the Kremlin announced last year that the colonies must make their own way in a global market, hundreds of seemingly productive factories became obsolete overnight.

—PETER PASSELL, writing in the February 13, 1991, *New York Times*

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What's Your Problem?

by Lynn Tilton

In a market economy, when individuals look within themselves rather than to the state to solve their problems, those problems become opportunities for success. After all, problems aren't solved by laws or by organizations, but by individuals.

With more than 1,300 acres of campus property, Brigham Young University in Provo, Utah, generates mountains of grass clippings, tree trimmings, and the waste associated with the daily campus living of 27,000 students. Their landfill expenses kept climbing.

Waste is a particular problem in the western states because so much of the land is owned by the federal government. Less private land is available for landfills, so fees tend to be high. Many industries, caught between the demands of economics and environmentalists, expect government solutions. Rather than turn to the state for help, BYU, one of the largest private universities in the nation, initiated its own recycling program.

University officers gave Roy Peterman, BYU's grounds manager, responsibility for solving the university's waste-disposal headache. In 1990, in addition to keeping the campus in its usual visitor-impressing condition, Peterman's crew of 43 full-time workers and 260 student employees turned green waste into 10,000 cubic yards of compost. They also sold 12 tons of aluminum cans, 120 tons of cardboard, 150 tons of newsprint, and 200 tons of other recyclable materials.

Says Peterman, "We recycled 30 percent of our total waste. Our goal is 50 percent." Not only has their private enterprise recycling program generated outside money for the university, but it's cut landfill fees $30,000 per year.

Since BYU was one of the largest users of the local landfill, this program means that the landfill will last longer than expected. Market incentives (cost reduction and extra income) helped ease a problem that concerned everyone in the region, without hiring a single extra bureaucrat to oversee the situation.

The First Yogurt Sandwich

As Americans became more health conscious, the ice cream industry responded to changing customer preferences and began producing frozen yogurt. The Elgin Company developed a soft-freeze yogurt maker, much like its highly successful line of soft-freeze ice cream machines.

Unlike ice cream, however, yogurt cannot be kept overnight in the machine. Bacterial growth is one reason, and the many city, state, and Federal health regulations constitute another. Nor do customers like yogurt that has been saved in the store's main freezer and re-run the next day through the frozen yogurt maker.

Supermarketers could either throw away the yogurt left over at closing, or quit making yogurt when the machine emptied late in the day. They couldn't afford waste; neither could they fail to have the expected product available. That's a fast way to lose customers to the competition.

Keith Neibdring of the Food Marketing Corporation of Fort Wayne, Indiana, found a lucrative solution. From his bakery counter he took two cookies that were destined to be dis-

Mr. Tilton is a full-time, free-lance magazine writer living in Hereford, Arizona. He is coauthor of a novel, Night Pilot *(Deseret Books, 1991).*

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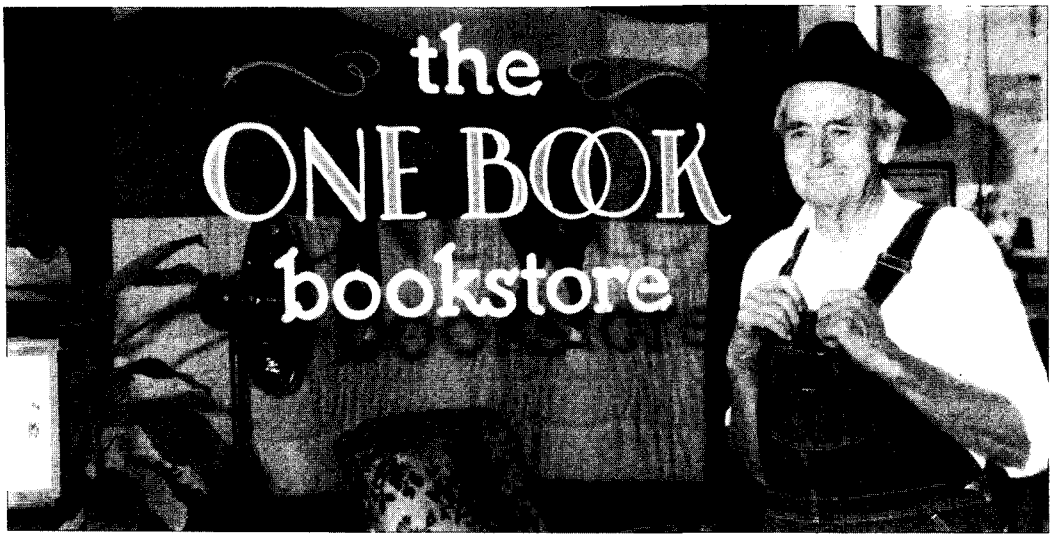

LYNN TILTON

Walter Swan turned an "unpublishable" book into a success story.

counted because they were "day old." He layered two ounces of yogurt on one cookie, pressed the other on top, and *voilà!* the world's first yogurt sandwich.

The stores in his chain began making yogurt sandwiches with the leftover yogurt and the day-old cookies. They also started featuring different flavors, increasing customer selection—and satisfaction—considerably.

With the help of Jim Newlin, Elgin's sales director, the inventor took the solution one step further. He started filling pie crust shells with seven ounces of yogurt, adding a piece of appropriate fruit or decoration on top, and selling yogurt pies.

Says Newlin, "Basically, Keith took 93 cents worth of ingredients and turned them into a $6.95 product."

The One Book Bookstore

Walter Swan is a retired plasterer in southeast Arizona. Although health finally forced him to retire from a young man's trade, he wanted to remain active. He fulfilled a lifetime dream when he wrote his autobiography. Since no commercial press would handle his book, Swan decided to publish it himself.

Self-publishing led to another problem: marketing. There was no one to promote his book, and bookstores wanted 40 percent off the top to sell it. "I had to succeed," he said. "I borrowed on my house to get my book printed."

Swan found an empty department store building in nearby historic Bisbee, Arizona, and stocked it with his book. Dressed in cowboy hat, red neckerchief, and overalls, he sat in the window and waved to the tourists. His "One Book Bookstore" caught the tourists' fancy, and he was off and running. His business helped the landlord rent out the rest of the building to other entrepreneurs who took advantage of the traffic the One Book Bookstore generates.

Television soon discovered this storyteller, and he's been a guest on several national late-night programs. Every appearance generated hundreds of requests for his $19.95 book. Some days walk-in traffic and mail orders total more than 700 copies of the book no one wanted to publish. (A national publisher recently offered him a $20,000 contract, but he turned it down flat.) Swan's got a second book out, and he's opened another bookstore. He calls it "The Other Bookstore."

The common thread through these examples is that accepting personal responsibility for problem-solving leads to success, whether your problem is garbage, leftover yogurt, or even a book no one else wants to publish. The solution to each problem took work, time, and imagination. But those three things are available to anyone who understands that the real answer to almost any problem is in the marketplace. □

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A Checklist for Healthy Skeptics

by Dianne L. Durante

We in the United States are becoming terrified of our own technology. Nuclear energy will zap us into early graves. Alar and DDT will give us cancer. The greenhouse effect will melt the polar ice caps, and Manhattan will be submerged. Wouldn't it be better to live "in harmony with nature," that is, without all our high-tech devices but in peace and health and security?

Or would it, perhaps, be better to ask first how much truth there is in the media hype that bombards us with such dire predictions every day? Few of us know how to evaluate predictions of high-tech doom. We must learn, if we are to keep the technological achievements that give us one of the highest standards of living in the world. Before accepting the media's forebodings of imminent disaster and screaming for the government to charge to the rescue, consider the following points.

1. What are the facts? Get specific facts, with places, dates, amounts, and sources; don't accept emotional tirades or vague generalities. If, for example, a movie star says Alar causes cancer, ask when and where and by whom and on what was the study done that reached that conclusion. Have other studies supported those findings? How much Alar would you, a human, have to eat to get the same effect? According to Dixy Lee Ray, to get the amount of Alar fed to the mice who developed tumors, *you* would have to eat 28,000 pounds of apples every day for 70 years.[1] Mice fed smaller doses didn't develop tumors: eating a mere 14,000 pounds of apples a day wouldn't do it. Further examples:

- How much radiation was released from Three Mile Island in March 1979, in what is widely referred to as the worst nuclear accident in U.S. history? Answer: about one millirem in the surrounding area, and a maximum of 80 to 100 millirems within the plant. Let's put that into perspective. The average "background" exposure to a resident of the U.S. is about 350 millirems a year. By flying from New York to Los Angeles, you would expose yourself to about five additional millirems; by choosing to live in Colorado or in the radon belt of eastern Pennsylvania, you might get a couple hundred millirems more than the average yearly dose. Comparison with these exposures from normal background sources reveals that the one millirem released at TMI was actually a very minor amount.[2]
- Precisely how many cases of cancer can be traced to DDT? *None.* In fact, the National Cancer Institute declared in 1978 that DDT is not a carcinogen. For a debunking of every horror story you've heard about DDT, from the soft-shelled birds' eggs (they were occurring before DDT came into use) to the idea that DDT never breaks down (it does, within about two weeks in most cases), see Ray's chapter on pesticides.[3]

2. Check your sources. Don't assume that anyone who has made a movie or landed a job as a reporter has taken the time to research the matter in question. The news reporter, because he must frequently condense his presentation to a two-

Dr. Durante is a free-lance researcher living in Brooklyn, New York.

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minute slot, often may not have a strong incentive to thoroughly investigate the matter. He does, however, have a strong incentive (his ratings, and ultimately his job) to grab your attention and hold it, and may not hesitate to exaggerate, ignore, or distort the facts in order to make his story more attention-getting. As for "celebrity authorities," their occupations require acting ability, not scientific training. Suggestions for checking sources:

- Find out where the reporter got his information. If he gives no source, that's a serious shortcoming. In fact, when the question is one of scientific evidence, if no source is given, you can and should simply dismiss the statement as arbitrary, as if the speaker had said, "Pluto is composed entirely of rum raisin ice cream." Unsubstantiated emotional diatribes are unacceptable, no matter who the speaker is.
- If an authority is cited by name, what are his credentials? Is he in a field that is applicable to whatever he's talking about? For example: few biologists know in detail how nuclear power is generated and what its risks and safeguards are. Being a scientist rather than a piano teacher is not enough to qualify one to speak on all scientific issues.
- Find out where the authority who is cited has been published. A sensation-seeker may manage a mention in *Time*, but not an article in a well-established scientific journal that requires review of the article by other scientists before publication.
- Check the date of the statement. Often one vague statement, if dramatic enough, will be picked up and cited over and over again, despite any evidence to the contrary that was known at the time or has become known since. A good example: prompted by an extremely hot and dry summer in the continental United States in 1988, NASA's James Hansen told a Congressional hearing that year that he was 99 percent sure the greenhouse effect was drastically changing the climate. He is still cited very frequently. How many people know, remember, or mention the fact that the winter of 1989 was the coldest on record in Alaska?[4]

3. Put potential risks into perspective; look at the forest as well as the trees. No technology and no element in nature is 100 percent risk-free: while drinking a quart of water may save your life, putting your head into a bucket of water may kill you. *If* there is solid evidence of a harmful effect, how does the amount of risk compare with the benefits gained from the product?

- The Three Mile Island accident, the worst mishap in 35 years of nuclear power generation in the United States, resulted in no deaths.[5] Contrast the record of electricity generation by coal. Mostly because producing one megawatt of electricity requires much more coal than uranium, using coal leads to about 100 times more deaths in mining coal than in mining uranium for a nuclear power plant, and leads to more than 20 times as many cases of industrial diseases among coal miners than uranium miners.[6]
- DDT did not result in *any* proven fatalities or cancers, but while in use it saved millions of people from disease and death. DDT was the most effective weapon against the mosquito that spreads malaria, a disease that has caused millions of deaths in Asia and even in the United States, and is doing so again now that DDT has been banned.[7]

4. Play devil's advocate with the facts, once you have them. It's a useful method of self-defense to become familiar with how some facts can be distorted and how other equally important facts can be completely ignored.[8] Two common techniques to watch out for:

- Ignoring the larger picture, while citing only facts sure to alarm the listener. A mock advertisement in Petr Beckmann's book (p. 77) reads, "Foods advertised in *Reader's Digest* are radioactive." In small print, he points out that virtually all foods have trace amounts of radioactivity.
- Confusing cause and effect with correlation. Many people die while they're sleeping; therefore sleeping is a leading cause of death. Some people got sick after ingesting PCBs, so PCBs must be dangerous chemicals. (In fact, in the case cited as evidence of this, the liquid mixed in with the food had come from air conditioning equipment, and contained, aside from PCBs, chemicals known to be highly toxic.)[9]

5. What to do? If a hazard to human health exists, what is the best way to deal with it? There are basically two alternatives: government action, or action by individuals. They depend on two very different views of man: that he can't be trusted to look out for his own welfare, and must therefore have a paternalistic government tell him what's

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A lunchtime jog at Three Mile Island. Despite the media scare, there was no evidence that human or animal life was threatened by the accident at TMI.

good for him and force him to do it; or that man is a rational being, to be dealt with through persuasion, who ultimately must be left alone to plan his own course of action.

The evidence is overwhelming that government economic planning is an abysmal failure. It fails because no central agency can process, or even collect, all the details that, in a free market, each individual considers in order to make the best choices for himself. The same is true for environmental regulations, which are just another form of economic intervention.

At present, the government has severely restricted the use of DDT. In a free market, a person in a tropical climate might decide that he is willing to risk whatever minor hazards come from using DDT, in return for dramatically decreasing his chances of getting malaria. At present, the government has imposed such stringent controls on nuclear power plants that many utility companies cannot afford to build them. In a free market, a utility company might persuade the residents of New York City that a nuclear plant (whose containment vessel can withstand the impact of a jet at landing speed) is safer in a crowded urban area than huge, flammable gas tanks, or gas lines that can be ruptured (and have been) by a backhoe operator. Individuals working and cooperating within the free market must be left to deal with environmental problems, as they deal with problems of supply and demand. Only individuals have the knowledge to make the decisions proper to their own welfare.

* * *

We feel pity for a man who's "afraid of his own shadow." To be afraid of one's own mind is worse, and fearing the technology we've created is precisely that: fear of the efforts and products of the human mind. The mind is man's means of survival. It is his only way to make the earth, often so inhospitable, a wonderful place to live. To reject the products of the mind on the grounds that they are not immediately perfect or 100 percent risk-free is to condemn man to perpetual fear, backbreaking labor, and premature death.[10]

I called this article a checklist for "healthy skeptics." The reason should now be clear. To remain healthy, we must learn to approach predictions of environmental doom critically, not accepting them unless or until the doomsayers meet basic standards of proof.

Isn't this being a bit harsh? Shouldn't we give

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environmentalists some credit because they have good intentions? Aren't they working for clean air for all of us to breathe and open spaces for our children to play in? Aren't they fighting technology for our benefit?

Let me answer these questions with two quotes from prominent environmentalists. The first is from John Muir, founder of the Sierra Club, addressing alligators: "Honorable representatives of the great saurians of older creation, may you long enjoy your lilies and rushes, and be blessed now and then with a mouthful of terror-stricken man by way of a dainty!"[11] Does this sound like a man who has good intentions toward you and the rest of humanity?

And from Stephen Schneider, one of the leading spokesmen for the greenhouse theory: "We need to get some broad-based support, to capture the public's imagination. That, of course, entails getting loads of media coverage. So we have to offer up scary scenarios, make simplified, dramatic statements, and make little mention of any doubts we may have. . . . Each of us has to decide what the right balance is between being effective and being honest."[12] Does this sound like someone who is interested in presenting you with the truth, and nothing but the truth, so that you can make your own informed decision?

Such people don't simply want clean air for man to breathe or open areas where children can play. They rank clean air and open spaces above any concern for man. They consider nature (which has come to mean anything on earth that's not human) good in itself, not good for any benefit it might bring to man. If man suffers so that the snail darter and the spotted owl can prosper, so be it. This idea that man is a disfiguring blot on the face of the earth is the reason that many leading environmentalists wish for alligators to have us as appetizers.[13]

Granted, the above quotes are from only two members of the environmentalist movement, but Muir and Schneider have been prominent leaders of it, and one must judge rank-and-file members by the fact that they have accepted these men as leaders.

Technology—man's tool for shaping his environment to suit his needs—improves man's living conditions and ultimately prolongs his life expectancy. For evidence of that, you need only look at the high level of disease and the low life expectancy in any period before the Industrial Revolution. It is imperative, if you want to remain a healthy human being, that you refuse to accept any claim that technology or specific technological achievements are going to kill or maim you, unless such claims are proven beyond reasonable doubt. □

1. Dixy Lee Ray, *Trashing the Planet: How Science Can Help Us Deal with Acid Rain, Depletion of the Ozone, and Nuclear Waste (Among Other Things)* (Washington, D.C.: Regnery Gateway, 1990), pp. 78-79. Ray, the former Chairman of the Atomic Energy Commission, provides a clearly and vividly written analysis of the evidence concerning the greenhouse effect, acid rain, pesticides, Alar, asbestos, dioxins, PCBs, nuclear energy, and so on. The book is aimed at the layman and has substantial footnotes.

2. Ray, p. 126. For a good discussion of normal exposure to radioactivity, as well as a detailed description of how nuclear power plants operate and how they compare in terms of safety with other types of energy generation, see Petr Beckmann, *The Health Hazards of NOT Going Nuclear* (Boulder, Colorado: Golem Press, 1976). Beckmann is Professor Emeritus of Electrical Engineering at the University of Colorado.

3. Ray, pp. 68-74. See also Elizabeth Whelan, *Toxic Terror* (Ottawa, Ill.: Jameson Books, 1985), pp. 59-85. Whelan has other chapters on PCBs, dioxins, nuclear energy, and acid rain, each organized in sections: the charges made against the substance or process, the facts, the background, various studies on the subject, and concluding remarks. The book is heavily annotated. Whelan has doctoral and master's degrees in epidemiology from the Harvard School of Public Health and a master's degree in public health from the Yale School of Medicine; she is president of the American Council on Science and Health.

4. Ray, pp. 32, 34-35.

5. Whelan, p. 239. She notes that President Carter's investigatory panel (the Kemeny Commission) concluded that there was no evidence that human or animal life had been threatened by the accident at TMI.

6. Beckmann, pp. 83-85.

7. Whelan, p. 69, with a chart on Ceylon, where reported cases of malaria dropped from 2,900,000 in 1948 to 17 in 1963, when DDT was widely sprayed in homes. The spraying was stopped in 1964, and by 1969 the reported cases were back up to 2,500,000.

8. For more on this, see Darrell Huff and Irving Geis, *How to Lie with Statistics* (New York: W. W. Norton, 1954).

9. Ray, p. 87.

10. See Ayn Rand, "The Anti-Industrial Revolution," in *The New Left: The Anti-Industrial Revolution* (New York: New American Library, 1971), for an enlightening description of what would happen if technology were abolished, why we cannot restrict just *some* technology, and the motives of those who want to. This essay, written 20 years ago, is remarkable for its insight into the principles behind the ecology movement and for where that movement must inevitably lead.

11. Quoted in George Reisman, "The Toxicity of Environmentalism" (Laguna Hills, Calif.: The Jefferson School of Philosophy, Economics, and Psychology, 1990), p. 4; also forthcoming in *Rational Readings on Environmental Concerns*, ed. Jay Lehr. An excellent analysis of the driving force behind environmentalism.

12. Quoted in Reisman, p. 10.

13. This premise is developed at length by Reisman and Rand in the essays cited above.

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School for Scandal

by James L. Payne

Are wasteful scandals like the savings and loan disaster a thing of the past? Has Congress learned from its mistakes? A close examination of a little-noticed legislative muddle reveals that Federal mismanagement is here to stay.

The muddle concerns the "reports problem." Since the beginning of the Republic, Congress has required the executive branch to supply reports on administrative actions, implementation of laws, and national problems. In modern times, the number of required reports has increased dramatically. Since preparing all these reports is costly, it makes sense to try to limit them. By 1980, a limit was obviously necessary: the number of reports had grown from 600 in 1963 to over 1,400. (These figures refer only to reports required on a repeated basis. In addition, there are 500 to 1,500 specific, one-time reports required in a typical year.)

So Congress got busy, passing the Congressional Reports Elimination Act of 1980 and the Congressional Reports Elimination Act of 1982. After all this legislative activity, how many reports were required in 1985? The answer is 2,800, twice as many as in 1980. Don't laugh yet, Congress wasn't done. In 1986 it passed another Congressional Reports Elimination Act. After much huffing and puffing, this act managed to eliminate a grand total of 25 reports. Meanwhile, the number of recurring reporting requirements continued to climb—to over 3,000 in 1990 (costing taxpayers an estimated $350 million per year).

What accounts for the strange failure of Congress to accomplish its announced intentions? The answer is that when the legislators actually look at the reports that are suggested for elimination, they realize that they need them. They provide information about the far-flung activities of the federal government. How can Congress regulate farming, mining, stockbroking, trucking, medicine, and so on unless it gets reports on the problems in these areas, and finds out about the flaws in its policies? So the reports have to stay.

The problem, of course, is that Congressmen can't possibly digest and respond to all these reports. At this point, thoughtful members of Congress would conclude that they ought to restrict the scope of government to activities they could responsibly manage. Unfortunately, our lawmakers won't admit they are over-extended. In asking for more reports than they can read, Congressmen have proven they are way out of their depth, but haven't the sense to move to shallower water.

A close look at how reporting requirements begin illustrates the Congressional illogic. In a desperate effort to prevent further waste and corruption in the S&L bailout, Congress has mandated the production of several dozen reports from the Treasury Department, the Attorney General, and from an alphabet soup of agencies most people have never heard of: NCUA, SAIF, RFC, OCC, RTC, GAO, FHFB, FDIC, CSC, and OTS. Congressmen need these reports to master the subject in depth and exercise responsible over-

James L. Payne has taught political science at Wesleyan, Yale, Johns Hopkins, and Texas A&M University. His book The Culture of Spending: Why Congress Lives Beyond Our Means *has been published this fall by the Institute for Contemporary Studies in San Francisco, and is reviewed on page 439 of this issue.*

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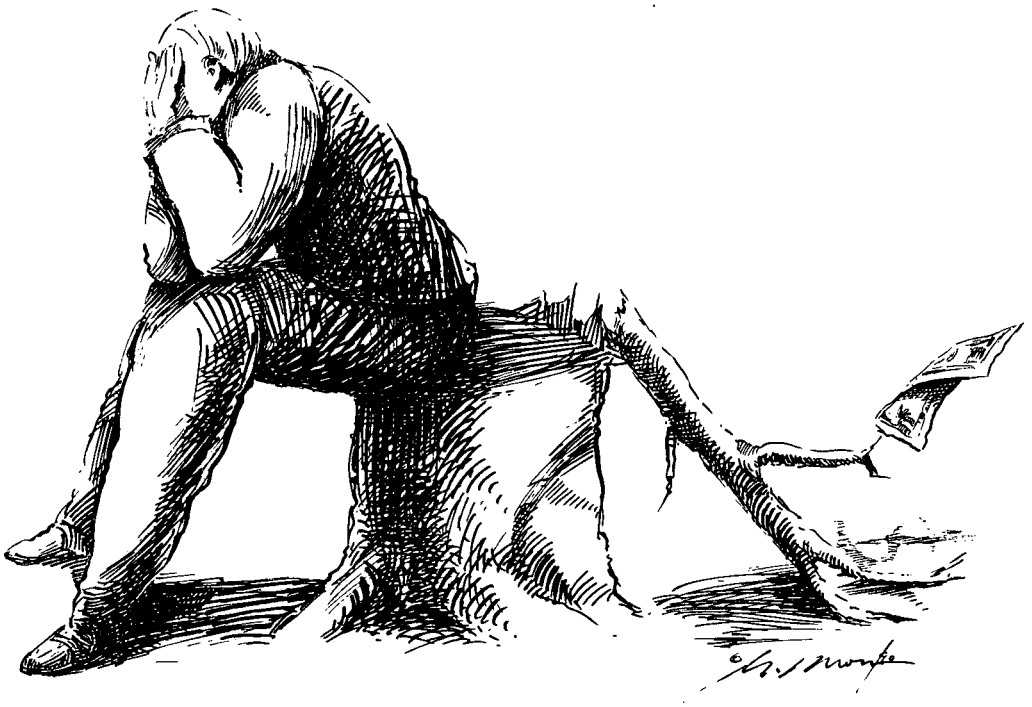

WASHINGTON POST WRITERS GROUP

sight. But are they likely to digest and act on these reports? It's a factual question, because we've been here before.

In the mid-1970s, a major scandal broke at the Department of Housing and Urban Development. Over 500 people were indicted in connection with a number of fraudulent practices. Congressmen, embarrassed that they hadn't been minding the store, moved to prevent future scandals by requiring the Inspector General of HUD to make semi-annual reports to Congress about "problems and deficiencies."

The Inspector General filed his reports. As early as 1981, they told of overcharging, fraud, and unsound loans, and pointed out how the programs needed to be changed to prevent these abuses. But congressmen didn't pay any attention. After all, there were thousands of other reports to read. Finally, in 1989, the HUD scandal broke in the media, and the nation learned that billions of dollars had been wasted. This time, 600 people were indicted.

Explaining why his oversight committee hadn't looked into the HUD mess sooner, one senator said, "When you're working with a trillion-dollar budget, with 100 different agencies and Cabinets, [we] can't overview each of these agencies." Obviously. Then, one asks, why not try fewer agencies? Unfortunately, the humility needed to accept this logic is in short supply in Washington. Congressmen will go on attempting to regulate what they can't possibly understand, and the rest of us will go on paying for the costs of their mismanagement. □

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Art and Representative Government

by William R. Allen and William Dickneider

There, on a patio of a university campus, was a pile of twisted, rusted iron pipe. But it wasn't debris from plumbing renovation. It was an art exhibition.

Why had the artist blessed us with this miniature junkyard? It was neither pretty to the eye nor coherent to the mind. Of course, we are not to ask what a modern painting or sculpture *is*. But perhaps it is legitimate to ask what the artist meant to *convey*.

If we generously presume that the artist is really saying something of importance, how are we to receive and translate the message? Are we to suppose that the message sent is the same as the message received? If not, this is peculiar and clumsy communication. Or maybe no message is being sent although one is to be received, with the receiver doing the artist's work by inferring something that wasn't transmitted.

Perhaps interaction between producer and consumer isn't the intended game, at all. Maybe the purpose of the artist is personal catharsis: by dumping rusted pipe on the patio, he gets a psychological monkey off his back. Or maybe it is to be a profitable variation of "the emperor's clothes" scam, with a clientele of connoisseurs finding art where lesser folk see only junk.

Within broad limits—if the art community is to be subject to any constraints—surely "producer sovereignty" should prevail, with individual artists determining the nature of their own creations. But let there be also "consumer sovereignty" in consumption of the art produced. Let consumers determine for themselves the works of art they pay for. Further, don't restrict philanthropists in subsidizing artists: one of the tenets of a system of markets and private property is that people generally can dispose of their assets as they please.

But two points of elaboration.

First, while artists are to be free to use resources which either they *buy* with their earned income or which are *given* to them by private patrons, they have no right to *commandeer* resources from unwilling contributors through exploiting the coercive powers of government.

Second, we are not morally obliged either to subsidize or to deify artists. While we guard the freedom to create works of art—even piles of twisted, rusted pipe—protecting artistic freedom is very different from insisting that taxpayers buy whatever people chose to produce with that freedom.

But some artists, like some of the rest of us, can be seduced by government favor and applause. "The arts are not a luxury," says a lawmaker, "they are the soul of society." Art "reflects things that are happening in our society," says another, "and closing our eyes will not make these things go away. Such art can help us recognize other influences on our culture and even help us understand them. And if it does not help me or you specifically, you can be sure that it is helping someone, somewhere, who can relate to it."

William R. Allen is professor of economics at UCLA; he and William Dickneider collaborate on the Midnight Economist *radio program, syndicated by the Reason Foundation of Santa Monica, California.*

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THIS ONE IS ENTITLED, "RELUCTANT TAXPAYER PATRON"!
NATIONAL ENDOWMENT FOR THE ARTS
COLORADO SPRINGS GAZETTE TELEGRAPH
CHUCK ASAY

Artists are not loath to accept an exalted role. "... art is social conscience," we are assured by the director of a subsidized theater. "Art," he says, "has only one obligation—to tell stories and make images about who and what we are and who and what we might become." In all the community, "only the artist must tell the truth."

Such precious rationalization for raids on the Treasury cannot be analytically persuasive. Better to acknowledge simply that beneficiaries want the money and politicians want their support—and to remember that the arts flourished for most of America's history without substantial Federal money. Only in the last few decades has government put arts significantly on the dole.

Government is not the wellspring of art and culture. Nor does some law of nature or sense of social survival compel us to clutch sensitive artistic souls as our conscience, guide, or judge. Subsidizing artists is not a role of government that is clearly legitimate or even commonly accepted. All except addled anarchists acknowledge that government *does* have reason for being. Most agree that government properly provides such fundamental services and arrangements as law and order and administration of justice, national defense, and protecting property rights which conduce economic efficiency and social stability.

But something like subsidization of the arts is an alien element in this context. It is not a "public good" like national defense, for markets have long provided ample incentive for artists to meet consumers' preferences. And while the state has compelled us to pay for many things we would not have approved if given effective choice, we do not legitimize new error by past error.

Able people have long debated the appropriate purposes of government. But if there are *any* limits to what should concern government, then subsidization of art, however defined and identified, is pushing out the boundaries very far. Indeed, if idiosyncratic behavior not valued by the bulk of the community is to receive largess from the public trough, then little remains of representative government. □

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The S.E.C.'s War Against the Theater

by John Chodes

As a playwright, I recently had a confrontation with the Securities and Exchange Commission, related to a theatrical production of mine. As a result of this brush with the law, I learned that the S.E.C. regulates much more than the stock market. It negatively influences what kind of theater is produced.

The difficulty revolved around the incorrect filing of investor documents for my show. I was fined. To be certain that this never happened again, I reread the prospectus more carefully, and was shocked. The regulations were so absurd: they seemed to challenge producers to raise money outside the legal parameters by making it very difficult for the small theatrical enterprise.

One glaring example was a bold-faced "Risks to Investors" statement that seemed more like the warning on a pack of cigarettes: "Even if critically acclaimed a play may not recoup its production expenses. The record for this type of limited run [showcase or mini-contract] production . . . indicates that only a very few, if any, such productions have ever turned a profit and the vast majority have resulted in substantial losses to the investors. . . . Investors should be fully prepared and expect that, . . . they will lose all or a substantial portion of their investment in this offering."

In this one paragraph there are two misleading statements. First, showcase or mini-contract productions aren't intended to be profit-making. They are used as stepping stones to larger theaters by attracting favorable reviews and thus major producers and/or investors. Small productions also are used to "get a show on its feet" to analyze its strengths and flaws in front of a live audience.

Second, the fact of "substantial losses to the investors" is more a reflection of current conditions in the art world, where government subsidies have created the very negative conditions mentioned in the S.E.C. warning.

Before government entered the scene, many small productions made back their expenses, which tended to be quite low. Producers and investors weren't afraid to put their creative energies and money into new and innovative plays. In fact, the showcase was the backbone of the theater. Most plays reached Broadway or became films via this route.

Subsidies Raise Costs

Then in 1965 Congress created the National Endowment for the Arts, which lavishes $174 million annually on the arts. (This base figure is inflated by city, state, and corporate matching grants.) N.E.A. subsidies have increased the demand for theaters, costumes, and scenery, so that production costs have risen—much as prices tend to rise in an auction when the big spenders show up.

In the past decade, rental prices have soared about 600 percent for the most prestigious showcase theaters. One factor is that government-subsidized theater groups have made their permanent homes in what formerly were purely rental-per-show stages. These favored groups

John Chodes' most recent play, The Longboat, *was presented on Theatre Row in New York. He is also the Communications Director for the Libertarian Party of New York City.*

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A scene from John Chodes' allegorical play, **The Longboat.**

have monopolized these sites, restricting access to those periods when the subsidized theater groups are not performing.

Another factor driving up costs is that theatrical unions have become more aggressive and demanding. Historically, theater and the other arts were largely labors of love. Unionism was weak at the lower end because there wasn't enough money to attract organizing activity. Subsidies changed this. The flow of government money extended union rules and unrealistic wage contracts down to even the lowest level productions, whether they were funded or not. This has killed off many small-scale shows.

It is unreasonable to expect that many small, independent plays could survive the stringent requirements of the mini-contract rules, the second lowest level in the Actors Equity code book. Wages for each actor in a miniscule 99-seat showcase theater are over $200 dollars per week—not just from opening night, but from the first day of rehearsal. In addition, the producers must contribute to the actors' pension and health funds. The dollar formula is complex, but the amounts are substantial. If the cast is large, these two items alone can escalate to several thousands of dollars over the life of a play.

This wage and benefit plan makes breaking even a fantasy for most producers. It leaves many small productions awash in red ink—unless, of course, Uncle Sam is picking up the tab.

The S.E.C. also requires statements concerning the credentials of the principals involved with a play's production. These pronouncements about the professional experience of the producer and director indicate another disclaimer, this time related to what they have *not* done more than their accomplishments. (For instance, "Mr. Jones has produced five Broadway musicals but has never produced a mini-contract play before.") This continues the emphasis on the negative, which creates fear instead of presenting the facts.

S.E.C. rules also forbid more than 35 "angels" (theatrical investors) from contributing to a showcase production. Thus, fewer shows get off the ground. By being forced to assume a substantial financial burden, each angel experiences more anxiety about the investment. This tends to make them believe the warning on the prospectus: the play is doomed to fail.

The S.E.C.'s doomsday warning frightens off investors. In many cases, their decision for or against participation isn't based on the merits of the play or on intangible personal motives, such as wanting to associate with the "glamor" of the theatrical world or an interest in helping the arts. Instead, fear becomes the greater propelling force: fear of losing one's money, no matter how promising the play may be. By this means alone, the S.E.C. has reduced the number of plays that reach the stage.

The essence of theater is the individual viewpoint, which can revolutionize our way of thinking. By controlling the theater through S.E.C. rules and N.E.A. subsidies, the federal government is thwarting mind-provoking plays. □

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Corporate Giving: The Case for Enlightened Self-Interest

by Edward H. Crane

Lenin once said the capitalists will one day sell the rope used to hang them. In this area, at least, he has proven to be disturbingly close to the mark, with the only modification being that many capitalists seem determined to give the rope away. A truly curious aspect of American corporate philanthropy has been the tendency to give corporate profits to groups openly hostile to profits in general and corporations in particular.

A recent survey by the Capital Research Center in Washington, D.C., found that the 146 corporations responding (out of the *Forbes* 250) gave more than twice the funding to generally anti-capitalist organizations than they did to groups supportive of the free market system. There is reason to believe that the giving pattern of those companies not responding to the survey is on the whole even more skewed toward the economic and environmental left.

This trend in corporate giving is disturbing on two accounts. First, it is not in the long-term interests of shareholders or employees. Second, it is an abrogation of a broader societal obligation corporations have, as centerpieces of the free enterprise system, to promote understanding of and support for market capitalism. Americans have a much higher level of respect for the business community than most businessmen realize.

Mr. Crane is president of the Cato Institute in Washington, D.C.

The typical senior business executive who is expected to address issues of public concern is often confronted by anti-corporate activists, a skeptical (if not hostile) media, and government bureaucrats who derive great psychic income from the arbitrary power they hold over corporations. Perhaps it is therefore understandable why so many of them assume a defensive, almost apologetic posture when it comes to speaking out. The truth is, however, that the vast majority of Americans have few axes to grind with corporations. They respect competence, innovation, productivity, and yes, profits. If many detractors of corporate America are motivated by envy, most Americans take genuine pleasure in the legitimate achievements of others, including corporations.

The point is, simply, that senior executives with the courage to speak out in defense of capitalism and the role their corporation plays in our society would find a much stronger positive response than they might imagine. Corporate executives, because of the somewhat hostile public environment they find themselves in, tend not to recognize the moral suasion they possess. And the moral argument for capitalism is made all the more compelling because it is a system based on voluntary exchange, rather than compulsion. Capitalism *is* a moral system.

It is important to recognize that the revolutions that have occurred in Eastern Europe are less revolts against Communism—a system that has

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been intellectually bankrupt for decades—than they are revolts against government control of people's lives, per se. People risked their lives for the right to be free to choose, as Milton Friedman put it. They want to choose where they live, what they read, at which jobs they will work, and for how much money. The victory of capitalism over socialism is more fundamentally a victory of freedom over coercion.

Claiming the Moral High Ground

The very fact that choice (and private property) is at the heart of capitalism provides the business executive with a clear moral high ground, if only he would choose to employ it. Behind the moral posturing of capitalist detractors invariably lie schemes to limit individual choice—to direct the workings of the marketplace by bureaucratic edict and coercive redistribution. The chipping away at our free enterprise system by critics of business should be dealt with through a principled counter-assault rather than tepid protestations and financial handouts that only serve to embolden the adversary.

The lack of a vigorous, principled business-community stand in support of the free market system has been a significant factor in the ominous growth of government during much of this century. The business community should, in fact, support limited government in general—not just in the economic realm—because it is the principle of limited government that ultimately protects market capitalism.

More than 200 years ago Thomas Jefferson wrote that "The natural progress of things is for liberty to yield and for government to gain ground." Certainly events in the 20th century should remind us of the wisdom of Jefferson's admonition. In the early part of this century, government spending at all levels—Federal, state, and local—amounted to just 10 percent of National Income. By 1950 the percentage had risen to 26 percent. Today, the total of all levels of government spending has reached 43 percent of National Income. The greater the amount of private sector money spent by the public sector, the less efficient and productive will be the market system, and the less competitive American industry will be in the international marketplace.

The Systemic Nature of Government Growth

One of the great dangers of the present approach to public policy undertaken by the business community is that it fails to recognize government's encroachment on the private sector as a *systemic* problem, the "natural progress of things" that Jefferson warned us of.

The literature from distinguished free-market economists on the growth of government is extensive. To begin with, there is the Public Choice School, led by Nobel laureate James Buchanan, which makes a persuasive case that bureaucrats are not the disinterested public servants our high-school civics texts might have led us to believe. Like the rest of us, bureaucrats are motivated in good measure by self-interest. Indeed, the bureaucratic imperative is constantly to generate rationalizations for expanding existing government programs, if not creating new ones.

Another Nobel laureate, Milton Friedman, has written about the "tyranny of the status quo." Friedman describes the process whereby a bill will be debated for years, even decades, only to pass in Congress by a single vote. From that point forward, however, the only debate is over whether the budget should be increased by 5 percent or 15 percent. The new government program is protected by what Friedman refers to as the "Iron Triangle"—the direct beneficiaries of the program, the Congressional oversight committee, and the Federal agency charged with administering it. Billions of dollars are spent annually by the federal government on consultants (whose existence depends on the government) to determine the value of (read: justify) these programs. To suggest that the program has proven more expensive than its proponents had claimed it would, or to challenge the efficacy of the program once it is in place, is considered somewhat ill-mannered inside the Beltway.

There are other powerful reasons for the growth of government, also unrelated to the value of that growth. For instance, programs typically dispense concentrated benefits while costs are diffuse. When that is not the case, as in the recent catastrophic health care bill (directly tied to increased taxes on the elderly), the chances of stopping the growth of the state are greatly

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enhanced. Additionally, Congress has, through incumbent-protection legislation, created an institution virtually impervious to voter discipline. The "culture of spending" that exists inside the Beltway and in the state capitals around the nation tends to distort the good sense of even the best-intentioned legislators.

More Than an Academic Exercise

Determining the causes of government growth and the commensurate threat to the viability of the free enterprise system is more than just an academic exercise. If a business is going to succeed it must not only have appropriate management systems in place, but also a political environment that is hospitable to capitalism and conducive to economic growth.

The purpose of this paper is not to develop an exhaustive case against big government. It is to outline the most effective approach to corporate giving consistent with the interests of shareholders, employees, and consumers. But it would be shortsighted to ignore the *systemic* failures of government in areas outside of business regulation and taxation. Those failures are directly relevant to the destructiveness of government intervention in the marketplace.

Business in America has, for the most part, assumed a rather myopic approach to public policy, lobbying for changes in this bill, influencing the mark-up of that bill, as often asking for government protection and favors as fighting off unwanted taxes and regulations. Policy-research institutes and public interest groups are more likely to receive funding from corporate America if they are on the pro-government intervention side of this fray.

This is a serious strategic error. As former Secretary of the Treasury William E. Simon wrote in *The Wall Street Journal* two years ago, "we in the American business community have a right and a responsibility to steer our gifts to institutions committed to maintaining freedom."

Moreover, this myopic approach to public policy is dated and unsophisticated. In the past decade American business has revolutionized its approach to management techniques. Faced with the reality of a global marketplace, corporations that had survived for decades employing rigid, top-down management systems have come to recognize that employee involvement and feedback are essential to operating at competitive levels of productivity. In a like manner, the corporate world is ready for a revolution in its 1960s-style approach to corporate giving.

A History of Government Failure

The failure of government runs the gamut of issues. For all practical purposes government has a monopoly in the field of education. Over the past three decades real spending per pupil has tripled while test scores have steadily declined. Yet the government education bureaucracy from the Federal to the local level argues that the problem is a lack of funds.

The Social Security system, sold as a safety net for the indigent elderly, now provides the majority of retirement income for a majority of Americans. As a pay-as-you-go system, it has deprived the economy of true savings, and now offers individuals entering the work force a rate of return upon retirement that we estimate to range from –2 percent to +2 percent. And that assumes a 26 percent combined payroll tax early in the next century. Added to this is the remarkable fact that, unlike a private retirement plan, individuals don't own the corpus of money paid into Social Security over their working lives.

In the area of welfare, where the state has assumed a massively larger role since the Great Society programs of the Sixties, more money has led directly to larger bureaucracies and more people on welfare. Charles Murray's path-breaking book, *Losing Ground: American Social Policy, 1950-1980*, documents the self-defeating incentives government welfare programs have created, often severing what he calls the "tendrils of community" by displacing private charities and absolving capable individuals of any responsibility for their own lives.

The list of major government failures, if not endless, is nevertheless extensive. When one looks directly at government attempts to regulate business the results are much the same. We estimate that deregulation of trucking has saved consumers on the order of $60 billion a year, not just in lower shipping rates but even more importantly in the ability of firms to develop just-in-time inventory systems. Airline deregulation has allowed millions more Americans every year to fly at lower rates.

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What problems of congestion remain are primarily the result of the failure to privatize the air traffic control system and the airports themselves, which have not responded to increased traffic as a market entity would, by increasing capacity.

Perhaps the prime example of government failure in the business world is the savings and loan debacle. S&Ls have always been something of a creature of government—not a market creation. When the yield curve moved sharply negative in the 1970s, deregulation of investments and interest rates became essential. Unfortunately, Congress not only failed to deregulate Federal deposit insurance, it actually increased coverage to make it feasible for individuals and institutions to Federally guarantee tens of millions of dollars of deposits. Without depositor discipline, some $500 billion of bad investments were made—to be underwritten by the American taxpayer.

In the face of this remarkably unimpressive record of government involvement in society—greatly transcending the limited role envisioned by the Founders—the business community in America has allowed itself to be thoroughly cowed by the opponents of capitalism. Instead of standing up to its opponents, the business community has attempted to appease them at every turn. Instead of proclaiming the moral superiority of capitalism, it has conceded the moral high ground to the likes of a Ralph Nader. Consider Nader's vision for America as revealed in a recent magazine article:

" 'How's your hand?' Rosenfield asks. Nader looks at the hand he scalded in a sink a few days back in Sacramento.

" 'Better,' Nader says. 'That hot water was almost boiling. The government hasn't set temperature limits in Sacramento, so that's what happens.' "

There is a point that the business community seems not to grasp. If the problem with government is systemic, then orienting one's defense to protecting the status quo is a mistake. For the status quo is not a given set of programs. It is, rather, a *process*. And that process is leading inexorably to ever greater government involvement. It is leading to a society in which Americans will have the benevolent hand of government determine the temperature of the hot water in their hotel rooms.

Yet how often do corporate representatives and business lobbyists operate on the assumption that the latest outrage they've caved in to in order to appease anti-capitalist activists must surely be all they really want? No. *They want to determine the temperature of the water in your hotel room.* The danger of government is systemic. It cannot be fought, at least not successfully, in the long run, on an *ad hoc*, piecemeal, and reactive basis. It most assuredly cannot be fought by letting the opponents of free enterprise determine the agenda for the debate.

"Politically Correct" Intimidation

To be blunt, the Sixties approach to giving placed corporate America (in general—there are several commendable exceptions to the rule) in the vanguard of what has only recently been dubbed "politically correct" thinking. A piece in the *New York Times* last fall explained that "p.c.," as it is often referred to, reflects "a large body of belief in academia and elsewhere that a cluster of opinions . . . defines a kind of 'correct' attitude toward the problems of the world, a sort of unofficial ideology. . . ." The issues in the cluster include ecology, culture, and foreign policy. The article goes on to note the "Marxist" influence on some p.c. thinking and that "The cluster of politically correct ideas includes a powerful environmentalism" and an anti-capitalist mentality.

This whole phenomenon, the article concludes encouragingly, is being challenged by intellectuals willing to stand up to the left: "But more than an earnest expression of belief, 'politically correct' has become a sarcastic jibe used by those conservatives and classical liberals alike, to describe what they see as a growing intolerance, a closing of debate, a pressure to conform to a radical program or risk being accused of . . . thought crimes. . . ." To the list of politically correct ideas one could confidently add the views that corporations are "exploitative" and that profits are "obscene."

It should be noted here that without some kind of mental self-flagellation and deep-seated guilt over being a part of Western civilization, one is not considered to have seen the light. Corporate America has been an especially sensitive target for the p.c. enforcers in our society, visibly wincing when accused of being out of step. Funds to support p.c. causes, including anti-business agitation, have been quickly forthcoming from the corporate community for the past 30 years.

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The Politics of Environmentalism

The collapse of the intellectual case for socialism and the planned economy has led many anti-capitalist activists into a new camp: the environmental movement. To be sure, concern over a clean and healthy environment is something most Americans share. Corporate America has not always acted responsibly with respect to the environment. Advocates of the free market should support the "polluter pays" principle of protecting the environment. But there must be sensible, rational standards for what constitutes unacceptable levels of pollution.

The environmental movement has, for the most part, been taken over by individuals with a political agenda that is considerably more ambitious than merely cleaning up the environment. What leftist environmentalists recognize that most Americans don't think about is the fact that *economic activity is inherently "polluting."* It necessarily entails the transformation of scarce resources into higher-valued objects and then into some form of "refuse." Thus, in the name of eliminating pollution, nearly all human action could be subject to regulation. But to allow the environmental movement to micro-manage levels of pollution and the environmental consequences of economic activity is to invite central economic planning via the back door.

It should not be considered alarmist to suggest that many leaders of the environmental movement have just such an agenda in mind. Indeed, their philosophy transcends an anti-business posture and at times seems aimed squarely at the very idea of improving the human condition.

During the brief window when there was heightened optimism over the viability of "cold fusion," the *Los Angeles Times* interviewed several leading environmentalists to get their views on the subject. One might have thought that the prospect of clean, inexpensive energy would be cause for an environmentalist celebration. But one would have been wrong. Paul Ehrlich said viable cold fusion would be "like giving a machine gun to an idiot child." Jeremy Rifkin said, "It's the worst thing that could happen to our planet." Barry Commoner, who once ran for President on a socialist platform, offered the helpful advice that we not convert our plant and equipment over to cold fusion until it is proven to work. Otherwise, he said, it would be "like starting to build a bridge over a river without knowing where the other side is." Luckily, American industry did not switch to cold fusion without first finding out if it worked.

Our point is that accommodating the environmental movement is an endless task. There is an anti-progress (anti-human?), almost Luddite mentality behind many of the demands from this group, as the above quotes from their leadership reveal. The Earth Day slogan was "We changed the world. Now it's time to change it back." From a capitalist standpoint, there is quite literally no satisfying this movement.

The accommodating approach of business to the Clean Air Act of 1990 illustrates the dangers involved here. The Act imposes an enormous burden on our economy, which we estimate to be in the range of $30 to $40 billion a year. Further, it imposes a bureaucratic command and control system on business that greatly inhibits the flexibility industry needs to stay competitive. And all this is done in the name of such problematic goals as reducing CO_2 in the air in order to solve an acid rain problem that the best scientific evidence says doesn't even exist. *60 Minutes*, a television program hardly biased in favor of business, devoted a segment to the absurd cost/benefit ratio of the Clean Air Act. Yet the business community, rather than fighting the Act on a fundamental level, opted to accept the major premise and hustle to patch in damage-control nuances.

An even more recent example of capitulation of a major business to disingenuous lobbying by an environmental group is the McDonald's Corporation's agreement to cease using foam packaging at the behest of the Environmental Defense Fund. The fact that McDonald's was on the verge of a major recycling project for its foam containers or, more important, that total worldwide human production of CFCs (the offending chemical) is less than 1/400 of the chlorine released into the atmosphere by sea water evaporation made no difference. The politically correct position won an easy victory.

Indeed, solid-waste management and "wasteful" product packaging are among the latest rationalizations for regulating business. State and local laws are proliferating. Congress has worked on a re-authorization of the Resource Conservation and Recovery Act, which will be horrendously expensive and without tangible benefit, and the

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Environmental Protection Agency has proposed expensive new regulations on local landfills. Once again, corporations appear all too ready to concede the left's premises in the hope of winning some marginal compromises. It will not work. An examination of the premises makes this clear.

The prejudice against disposable product packaging is actually a prejudice against consumption. The (false) claim that Americans waste too much masks a belief that Americans consume too much. The prejudice against consumption is itself based on the fallacy that resources are finite, as well as on a fundamental belief that human action disturbs the natural world. Compromise will only whet the left's appetite. If these premises go unchallenged, we will move inexorably toward ever wider recycling regulations, packaging restrictions, deposit policies, and even product bans. This would be a major step toward the politicization of business decision-making.

All human action involves trade-offs, and the very purpose of a market economy is to make possible intelligent trading off. It does so through the price system, which encapsulates socially dispersed knowledge about supply and demand and puts it into a form usable by all participants in the market. The anti-market mentality is characterized by a refusal to believe that trade-offs are unavoidable.

For example, recycling is presented as a costless method of reducing waste and saving resources. No consideration is given to the resources used in the recycling process itself. The handling of separated materials requires more vehicles using more fuel creating more auto emissions. The production of foam packaging, which was devised in response to the anti-paper, save-a-tree lobby, is more energy efficient and less polluting than other forms of packaging. According to research, in the United States, where there is said to be more packaging "wasted," there is less *food* thrown away than in countries where less packaging is used. Finally, recycling costs consumers time. Why should the environmental movement have the power to decide that consumers' time is worth less than they think it is? These trade-off considerations won't be found in the literature of the recyclists.

Government is incapable of making intelligent decisions about what kind of packaging is best; it simply doesn't have the necessary information. The factors that go into a market-based decision include the relative scarcity of the competing materials and the preferences of consumers. To insure that the price system faithfully reflects real conditions, it is necessary that all costs be "internalized"; that is, every scarce resource must carry a market price.

Thus, regarding packaging, it is essential that landfill services and other disposal costs not be subsidized by government at any level. Such a subsidy distorts decision-making toward more packaging because consumers don't pay the full costs of using it. In contrast, government efforts to increase the costs of using packaging will result in other, unintended losses (such as food, as noted above). If consumers must pay the true costs of disposal, they will make packaging decisions consistent with their values, with their means, and, without intending it, with what economists call "social utility." We thus can say that the free market promotes *rational conservation.*

As noted, the corporate response on this issue to date has not been encouraging. It has been *ad hoc,* material-specific, and fragmented. The very least American business could do to protect the remnants of free enterprise that we enjoy would be to move their foundation contributions from those that seek greater control over people's economic activities to those that will develop and propagate the kind of arguments outlined above.

A Principled Approach to Public Affairs

If the free enterprise system is to survive in the United States, it is imperative that the business community develop an effective strategy for saving it. Without a principled counteroffensive against those forces determined to destroy it, the corporation in America has a less promising future than the spotted owl. The environmental movement, egalitarian ideologues, and high-tax redistributionists won't lose sight of their goals simply because your corporation has made an accommodation to their latest demands.

In order to seize the moral high ground, however, the first thing the business community must do is stop using government to gain a temporary competitive advantage in the marketplace. Doing so not only hurts competitors, it also imposes costs on consumers. Part of the new enlightenment of corporate America, in addition to employee-oriented management, is a recognition that the consumer

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(at whatever level of production) must be treated with respect. In addition, it is difficult if not impossible to maintain an entrepreneurial spirit in the workplace while diverting corporate resources to manipulating the coercive levers of government to gain competitive advantage. Is the company's goal to make the best product at the lowest price, or to unfairly restrict competition and consumers? Corporate America cannot have it both ways.

As Paul Weaver wrote in his Cato Institute/ Simon and Schuster book *The Suicidal Corporation: How Big Business Fails America*:

> The effort to grab competitive advantage from the political process doesn't work any more, for the same reason that protectionism doesn't work. The effort to beggar one's neighbor soon becomes apparent to the neighbor, and he proceeds to do something about it. Fifty years ago and more, business's efforts in the U.S. to lobby government for advantages at the expense of many parts of the population stimulated farmers, workers, consumers, and others to organize and lobby for protection and subsidies of their own. Over the years, it worked all too well. Sooner or later the policy makers got around to giving at least something to nearly everyone. The heavy, unpredictable, economically harmful burden that government puts on American business today is the end result, direct and indirect, of a century of business lobbying.
>
> Under the pressures of a competitive global economy, American executives are beginning to face up to this shocking and disillusioning truth. As they do, I believe—I hope—that they will turn away from the blind, manipulative, self-destructive selfishness that is corporatism and begin to embrace the humane system of enlightened self-interest and voluntary cooperation under law that some call capitalism.

To achieve that goal, corporate representatives must be directed to take principled stands in support of an open-market system when testifying before Congress or lobbying in its halls. Certainly they should stop their practice of developing such close relationships with Congressmen and their staffs that they end up lobbying the corporation on behalf of government.

In general, one of the most highly leveraged means of influencing the public policy debate is through support of policy-research institutes and public interest advocacy groups. Regrettably, as noted, most corporate support for such organizations is perversely invested. There are a good number of important, efficient organizations supporting capitalism and limited government that are deserving of corporate support—much more so than many groups that receive much more. We recommend the following guidelines for corporate support of policy research and advocacy groups:

1. The organization should be openly supportive of free enterprise and limited government.
2. The organization should be non-polemical and nonpartisan.
3. Its product should be professionally packaged and marketed.
4. Avoid endowed organizations unless they appear to be utilizing their income stream from the endowment efficiently.
5. The policy approach should be innovative, entrepreneurial, and designed to move the debate off dead center. Avoid supporting groups that spend a high percentage of their resources defending the status quo.
6. Do not support organizations that accept government funds.
7. The organization should have a high level of output and visibility relative to its resources.

In his preface to *Patterns of Corporate Philanthropy*, former Delaware Governor Pete du Pont wrote:

> If the public policy program requesting funds is designed to change things at the margin, by five or ten percent, forget it. . . . Become the entrepreneurs your companies' founders once were. Look for exciting new ideas, bold new solutions, interesting new experiments to be tried, and give them a chance, because that is where America's future lies.
>
> During the past decade, America's corporations have displayed courage in managing their own affairs. While government has relied ever more on an outdated model of bureaucracy, corporations have adapted to the new realities of the information age by cutting bureaucracy and relying ever more on market forces to dictate decisions. Now, as they look at their public policy philanthropy, corporations need to take a page from their own lesson books and promote

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a new approach to public policy, an approach that seems radical only by the standards of American government in the 1990s.

In an op-ed last year in *The Wall Street Journal* entitled "Socialism is Dead; Leviathan Lives," James Buchanan wrote that "The death throes of socialism should not be allowed to distract attention from the continuing necessity to prevent the overreaching of the state-as-Leviathan, which becomes all the more dangerous because it does not depend on an ideology to give it focus." Consistent, principled opposition to Leviathan on the part of American business can make an enormous difference. Support of free market public policy research groups should be a major part of the principled opposition.

The distinguished University of Pennsylvania historian Alan C. Kors, in discussing the decline in importance of American universities, said in a recent interview, "But what's coming out of certain think tanks and certain foundations and certain institutes is very exciting and much more central to the real debates about the problems of American society." It is time for corporate America to decide which side of the debate it supports. □

IDEAS ON LIBERTY

Democracy and Diversity

Some corporations have defended their grants to anti-business activists on the grounds that such grants supposedly strengthen the democratic process by encouraging "diversity." The reasoning seems to be that by supporting a wide range of opinion and thought in policy research and advocacy, the "best" ideas in the current policy arena will prevail. In fact, however, one of the principal reasons for this study is that diversity is the last thing being encouraged.

The federal government has provided hundreds of milions of dollars to nonprofit advocacy organizations, at least 98 percent of which promote interventionist economic policies, in addition to which government funding of public policy research far outstrips private, corporate funding and is biased heavily toward the left. Government agencies fund policy research that calls for a more activist government, intellectual support for which is obviously conducive to the larger budgets they typically seek. Government's predominant role in funding academic public policy research is an important reason why this research—and academic opinion in general—is so heavily biased in favor of state intervention.

Thus, the overall funding of public affairs organizations and of public policy research is already grossly unbalanced in favor of those who espouse interventionist economic policy. Additional corporate funding merely augments this imbalance, exacerbating an already overwhelming anti-free enterprise bias. It does not encourage balance and diversity; it stifles them.

—THOMAS DILORENZO
from *Patterns of Corporate Philanthrophy,* 1990
(Capital Research Center, 1612 K Street, NW, Suite 704
Washington, DC 20006)

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Capitalism: Who Are Its Friends and Who Are Its Foes?

by Donald J. Boudreaux

Marxian 'alienation' is a philosophically esoteric concept projected by intellectuals onto the working class, rather than a passion felt from within that class with such intensity as to drive the proletariat to the barricades.[1]

—THOMAS SOWELL

One of the standard pillars of Marxist thought is that a person's economic position determines his or her political beliefs. People who are wealthy capitalists or prosperous members of the bourgeoisie support public policies favoring "capital" over "labor," while the ever-growing working class supports pro-labor as opposed to pro-capitalist policies.

As an economist, I always have been skeptical of this piece of Marxist dogma because, in a free market economy, pro-capitalist policies are not necessarily anti-labor, and pro-labor policies are not necessarily anti-capitalist. After all, capital accumulation increases the productivity of workers, which, in turn, increases real wages. Another problem with this Marxist proposition is that most laborers in free market societies are themselves capitalists. It is not uncommon for blue collar workers to directly own stocks in corporations, or, indeed, to own their own businesses. More significantly, nearly all working people in the United States own shares of corporations indirectly through their pension funds. Thus, Marx's explanation of people's political views is far too simplistic to take seriously.

But over the years I've noticed another problem with this Marxist proposition: Not only is it too simplistic in presuming labor to be opposed to capital, it fails to explain the observed pattern of political beliefs.

Six years ago, when I took a faculty position in economics at George Mason University, it occurred to me that nearly all of my libertarian and classical liberal friends come from working class backgrounds, as I do. Were we the exception that proved Marx's rule? Or is Marx's rule wrong? I couldn't answer this question definitively because, quite frankly, I knew too few people who came from privileged backgrounds. So, when I entered law school two years ago at the University of Virginia, I decided to take note of the family and educational backgrounds of as many of my fellow law students as I could.

Who Are Capitalism's Intellectual Foes?

Over the past two years I've conducted a casual empirical study of family backgrounds and political beliefs, using law students at the University of Virginia as my sample. This is a good sample set because a large number of my fellow students come from very privileged backgrounds and were

Don Boudreaux is studying law at the University of Virginia.

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educated at the best prep schools and undergraduate institutions in the world. But also a sufficient number (though not a majority) of law students at the University of Virginia are products of working class backgrounds and were educated at decidedly non-elite undergraduate colleges. I finally had the opportunity to test the veracity of Marx's explanation of political beliefs.

I found that Marx's explanation is backwards. The more privileged a person's background, the more likely he is to be a leftist. I know not a single classical liberal law student who is a scion of a wealthy family. Students who share my free market political views invariably are sons or daughters of blue collar or middle class workers, or of families whose substantial economic success was first achieved by the parents of these students. No classical liberal students that I know attended elite prep schools, and only a very few received their undergraduate educations at Ivy League universities. Likewise, the most committed leftists in the student body typically attended exclusive prep schools and, almost invariably, received their bachelor's degrees from schools such as Harvard, Yale, Smith, and Stanford. In short, it is the wealthy—or, at least, the children of the wealthy—who most shrilly criticize capitalist achievement and values. Capitalism's defenders come overwhelmingly from the working and middle classes.

An incident during my first year of law school reflects the invidious attitudes of students from privileged backgrounds. Our Constitutional Law class was discussing affirmative action when a black student spoke up against such policies. This student argued that affirmative action is unconstitutional as well as demeaning to minorities. It should be noted that this black student is from the Washington, D.C., ghetto, and, because of his own hard work, he managed to attend Dartmouth as an undergraduate. He also *earned* one of the coveted few positions on the *Virginia Law Review*.[2]

When this black student expressed his opposition to affirmative action, he was taken to task by several white students in the class—all of whom enjoyed an upbringing much more economically and socially privileged than that enjoyed by the black student. One particularly grotesque example of left-liberal presumptuousness took place when a white student (who is from wealthy Fairfax County in Virginia) openly accused this black student of being naive about what it means to be black! Marx's explanation of political biases clearly doesn't explain the lineup of opinions manifested in that classroom.

Why Do the Wealthy Promote Self-Destruction?

The findings of my admittedly informal study of family backgrounds and political views suggest the interesting question: Why this pattern? Why do leftists and interventionists come disproportionately from wealthy families, while libertarians and classical liberals come overwhelmingly from working and middle class backgrounds?

Several possible answers come to mind. One is that wealthy families are better able to send their children to Ivy League schools. Because leftist thought is most prevalent in these institutions, children from wealthy families are more likely to be exposed to interventionist ideas than are children from less advantaged families.

Another explanation that no doubt contains an element of truth is that children from wealthy families often feel guilty for being economically privileged. Of course, this guilt occurs when wealthy people come into contact with those who are below the poverty line. But it also occurs when wealthy people learn about working class lifestyles. A friend told me that he knows of a wealthy young woman who expressed surprise and shock upon learning that most people purchase automobiles on installment plans and not outright for cash. People who are accustomed to riding in nothing but new BMWs or Volvos quite naturally feel pity for those who can afford no more than Chevrolets or Toyotas purchased on credit. It normally doesn't occur to persons from wealthy backgrounds that people who are able to get credit to buy Chevys or Toyotas don't pity themselves, but instead feel quite pleased with their purchases. Leftist politics is a way to assuage the guilt that grows from this pity.

There is surely some truth to these explanations, but neither seems sufficient to explain the pattern of political views I detect among my fellow law students. The guilt explanation appears particularly weak.

Earlier I stated that I met in law school a few classical liberal friends whose families are quite wealthy. However, in all of these cases the parents of my classmates are the first generation in their

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families to achieve substantial economic success. Therefore, the explanation for leftist bias among the wealthy that focuses on guilt clearly isn't a sufficient explanation.

The factor that distinguishes these wealthy classical liberals from the leftist children of other wealthy families is that the classical liberals are firsthand witnesses to the effort and risk-taking that were required for their parents to achieve great economic prosperity. Children from families whose wealth extends back two or more generations never see the productive source of their families' wealth and, hence, remain unaware of the extent to which hard work and risk-taking were necessary components of their families' substantial material success. My sense is that another factor in addition to Ivy League schooling and guilt contributes substantially to the leftist bias of people who enjoyed privileged upbringings.

My identification of this other factor leading to leftist bias isn't novel, but it does help explain the pattern of my casual observations better than any other hypothesis I can think of. It is this: Children from wealthy families take wealth for granted, whereas children of working and middle class backgrounds do not. The longer wealth has been in the family, the greater the inclination to look upon wealth as something to be distributed rather than something that must be created and continually recreated by hard work, sacrifice, and risk-taking. Children of the economically well-to-do assume that wealth is more or less a fixed stock that always has been and always will be around; the only question is how it is to be shared. In contrast, people who don't hail from affluent families generally understand—often at only an emotional level—that high tax rates, burdensome government regulations, and silly products-liability laws block the path of those seeking to produce wealth.[3]

Wealth isn't thought of by these people as an ever-present and indestructible fund that can be taken willy-nilly from its producers without causing a diminution in its size. Therefore, people from working and middle class families are much less likely than people from wealthy families to be suspicious of those who achieve economic success in the marketplace. Children of the non-wealthy are much more likely than are children of the wealthy to realize that a person who gets rich in the marketplace does so only by producing new wealth and not by taking it from someone else.

Conclusion

Quite obviously, my empirical "study" of family backgrounds and political beliefs among my fellow law students is only very casual and impressionistic. And I don't wish to claim that there are no exceptions to my findings. Committed libertarians and classical liberals can be found among the ranks of the wealthiest in our society, and diehard interventionists exist among middle and working class citizens. Nevertheless, I continue to be struck by the prevalence of leftist interventionist thought among people whose families are wealthy and have been so for several generations. And I am equally struck by the disproportionately large number of libertarians and classical liberals whose parents or grandparents are of no more than modest means. I conclude from my casual survey that, to the extent that capitalism is threatened in America, its intellectual enemies come mainly from that group of people who Marx theorized would be capitalism's most staunch supporters. As usual, Marx was wrong. □

1. Thomas Sowell, *Marxism: Philosophy and Economics* (New York: William Morrow, 1985), p. 202.

2. I emphasize that this student earned his position on the law review. Like many law schools, the University of Virginia has a policy of setting aside a half-dozen or so law-review positions each year for minority students. Minority students who don't earn a position on the law review through their grades or writing skills get an additional opportunity to become a member of the law review by writing an essay explaining why their minority status (as opposed to their academic achievements) qualifies them for law-review membership. The black student who spoke out against affirmative action quite admirably refused even to participate in this minority set-aside program. He became a member of the law review solely by virtue of his academic abilities and hard work.

3. By silly products-liability laws I mean statutes and, more often, judicial rulings that impose on manufacturers monetary penalties for injuries to consumers that are caused by consumer negligence rather than by the negligence of manufacturers. A telling example of such a silly law was presented in a segment on CBS's *60 Minutes* several years ago. A farmer used a ladder to climb onto the roof of his barn during the winter months. The ladder remained in place through the spring, at which time, while being used by the farmer to climb onto his barn's roof, the ladder lost its footing. The ladder fell, causing injury to the farmer. The ladder fell for good reason: when the farmer put it in place during the winter, he set it on a mound of frozen cow manure and the manure thawed during the spring. Naturally, the ladder's footing wasn't secure on a mound of thawed cow manure. The farmer sued the ladder manufacturer and won. The court's argument was that the ladder manufacturer was negligent in not warning the farmer of such danger. See generally, Peter W. Huber, *Liability: The Legal Revolution and Its Consequences* (New York: Basic Books, 1988).

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Spending for Spending's Sake

by John Semmens

Few of us are in a position to act as if price were no object. We weigh prices against values, so as to avoid wasting money.

It would seem that this would be a useful way to control public spending. Unfortunately, government's own procurement policies often forbid comparison shopping.

Consider the recent case of a Federally funded study of the need for a new regional airport in Arizona. This expensive study was delayed. The delay wasn't due to doubts about the utility of the study, though doubts were certainly warranted. Neither was the delay due to spending cutbacks aimed at trimming the Federal budget deficit. The delay was caused by the fact that Arizona bureaucrats were attempting to factor in price as one of the elements for deciding whom to hire to undertake the study.

The effort to consider price was relatively meager. In a list of factors to be evaluated, price was to have a total weight of 10 percent. Even this overstates the implied impact of price. Since bids are typically ranked as a percentage of the low bid, even a price twice as high would still get half the allowable points. The norm is for all the bids to fall within a few percentage points of each other.

Nevertheless, the possibility that price might account for as much as 2 to 3 percent of the weight in selecting a consultant to do this study was too much for the Federal Aviation Administration. The FAA's procurement rules forbid bureaucrats from factoring in prices when selecting a consultant. The Arizona bureaucrats were told they must choose a consultant without considering price.

Eliminating price as a factor defies all logic. Surely, such a bizarre requirement demands an explanation. The only explanations offered, though, ranged from the stubbornly uninformative "we don't allow it" to the old standby of "this is the way we've always done it."

These "explanations" explain nothing. They merely illustrate the intransigence of a bloated government determined to spend more money. Of course, the Federal bureaucracy does have the support of Congress with its own mandates for higher prices (like the Davis-Bacon Act, which forbids contractors on Federal projects from competing on labor costs) and unnecessary purchases (like requiring the Navy to buy obsolete aircraft it doesn't want).

The Arizona bureaucrats resolved the issue of the regional airport study by re-advertising the project and selecting a bidder without regard to cost. The FAA's rules are followed by state bureaucrats because it is the only way to assure that Federal money will be spent in their state. The questions of whether a study was needed or whether taxpayers got the best value for their money were left unanswered.

The only way to answer such questions is to abolish the government program. Determining the need for a commercial airport is a question the market is ideally suited to answer. If a study is needed, it would be worth it for a private business to fund it. A private business would be likely to carefully weigh prices versus values in determining the scope of the study and in selecting who to perform it.

Usually government pretends to be cost conscious. Elaborate bidding rituals are conducted to buttress this pretense. Occasionally, though, the pretense falters, as in the case of the FAA's "no price" bidding regulation. This provides a clearer view of the real objective: spending for the sake of spending.

This clearer view should remind us that overextended government doesn't work very well. The sooner a majority of us realize this and stop depending on government to do what it is unsuited to do, the sooner we can replace its malfunctioning parts with higher performing free market alternatives. □

Mr. Semmens is an economist for the Laissez Faire Institute in Tempe, Arizona.

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The Big Nag

by Donald G. Smith

On January 4, 1977, I smoked my last cigarette. For anyone interested in further details, it happened in Burbank, California, at precisely 11 A.M., and the cigarette was a Lark. It was tough going for a day or two, but I soon broke free, and it's been a long time since I have even wanted to smoke.

I thought of this recently when I was in a public building and came across a big anti-smoking display that was a monument to the sloganeer's art. It was a pretentious, sermonizing, government-sponsored presentation that scolded smokers thoroughly and told them of the evil consequences to be faced if they didn't mend their ways immediately. The effect it had on me was to make me want to light up, not because I wanted to smoke but merely to protest this government intrusion into personal behavior.

This sort of thing has been going on for many years, but it seems that recently the whole business of government nagging has passed beyond the reasonable limits of human tolerance. And it isn't all tied up in smoking. We are told to eat more fiber, see our dentists twice a year, hire the handicapped, exercise, buy bonds, vote, learn to swim, drive safely, conserve water, and share the ride.

The advice given is sometimes good, sometimes questionable, and occasionally quite bad, but one wonders why it is offered at all on a governmental level. It is a case of authorized and approved nagging, a big bureaucratic finger shaking in our collective faces and telling us that if we don't eat our vegetables we won't be getting any dessert.

There was a time when government was clearly in the business of making and enforcing laws, but this now seems to be only an adjunct to the endless flow of admonition that pours forth from Washington, every state capital, every county seat, and every city hall on a round-the-clock schedule. It is as though our bureaucrats have run out of laws and have decided to enter the field of human behavior to fill their empty hours. This is accompanied by the tacit message that *they*, government, know far better than *we*, the people, how we should be conducting our personal affairs.

Government has consequently evolved into a nagging, scolding, ever-counseling superpresence, reminding us constantly to eat a good hot lunch and to come directly home from school. It might well be described as a *nagocracy*, a kind of government that sees itself as the kindly protector of potentially naughty children and spends the bulk of its time seeing that we make it through the day safely. As always, it means well, but then what nag doesn't?

I thought a lot about this as I gazed upon the disgusting and overstated anti-smoking display in the public building. My first thought was that I had quit smoking on my own with the simple decision that it was bad for me and that I should have the fortitude to stop; which I did. Government badgering had nothing to do with it, and I don't know anyone who ever gave up smoking because a bureaucrat said it wasn't a good thing to be doing.

More important, though, was the thought that someone on the public payroll received money to create this display, and others were paid to cart it into that building and set it up. To compound the sin, there are countless others being paid to tell us to stay out of the sun and to rotate our tires regularly.

Is this really why we have government? I cannot believe that our political structure exists to tell us how to conduct our daily affairs and to chide us into refraining from harmful behavioral patterns. The smoking matter, in particular, has gotten quite out of hand. We just don't need government to tell us not to smoke. As a nonsmoker, I find myself paradoxically more and more on the side of the smokers when the issue arises because they aren't nearly as hard to take as the carping minions of the civil service society whose chief aim in life seems to be to nag the populace into conformity. This is why, in a restaurant, I always ask for a table in the smoking section. I want them to see me there. □

Mr. Smith is a writer living in Santa Maria, California. He has been a frequent contributor to The Wall Street Journal.

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Poland's Flawed Reform Plan

by Paul A. Cleveland

Poland's economy recently has undergone some radical changes. Price restrictions have been lifted, its borders have been opened to foreign goods, and interest rates and exchange rates have been allowed to fluctuate. These are encouraging moves toward a free market system.

The results, however, have been mixed. Small businesses have opened in record numbers and many shortages have been eliminated, but unemployment has risen and productivity has fallen. Why hasn't Poland's economy responded in a more positive fashion?

The problem is that wages remain regulated. Increased unemployment and lagging productivity are the natural result.

In a market where product prices move freely and businesses are free to compete for customers, it is important to produce a quality product while remaining price competitive. However, if the government controls the wages a firm may pay, it becomes very difficult to do this. Since employers no longer can compensate employees for exemplary performance, workers lose the incentive to put forth maximum effort. Instead each employee tends to discharge his duties at a minimal level of acceptable performance.

Controls on wage rates, therefore, mean that more labor hours will be needed to produce a given product. This raises production costs, hindering the firm's ability to remain price competitive.

The quality of the firm's product also suffers. Not only is the employer unable to reward employees on the basis of productivity, he is unable to reward those who are careful not to make mistakes in the production process. Therefore, where wages are restricted, a firm won't be able to compete with firms whose wages aren't restricted.

In places such as Poland, where wages are controlled while other prices are free to fluctuate and markets are relatively open, firms cannot produce goods of sufficient quality at low enough prices to compete with outside firms that don't have to abide by such artificial restrictions. Productivity falls and unemployment rises.

There is an additional result from Poland's peculiar mix of free market changes with continued socialist policies: the tremendous growth of small retail businesses. I saw this firsthand when I visited Warsaw recently.

Within walking distance from my hotel, there were people on a major street selling all types of goods right out of the trunks of their cars. It was amazing to see the wide variety of products. Across the street was a flea market made up of small, wood-framed booths that housed other emerging retail establishments. It was obvious that these vendors had made something of a successful stride forward by procuring a fixed establishment for their operations. Beyond this

Professor Cleveland teaches finance at Birmingham-Southern College, Birmingham, Alabama.

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PAUL CLEVELAND

Old Town in Warsaw. Many shops have opened in the storefronts, and there are retailers selling from carts and stands along the street.

stage were the business enterprises that were opening in many of the storefronts in the downtown area. The availability of produce that can be bought from these retailers is nothing short of miraculous.

However, the success of these enterprises is not without peril. In particular, there is some question as to how much they will be able to grow. The reason is once again the wage-rate restrictions. If a retailer is to hire an employee, he must pay the regulated wage. Therefore, it will be very difficult for these potential employers to expand their operations. Will they hire more employees than they can personally supervise? The evidence is against it. An employer can't afford to hire a supervisor who must be paid a regulated wage. Therefore, firms will grow only to a limited size.

This poses another problem for the Polish people. If business expansion is limited, the country's ability to compete in large-scale production with other countries will be hampered. Poland won't be able to gain from economies of scale. This, in turn, will limit the increase in the standard of living that the Polish people can expect from the changes they have made thus far.

Poland's future remains uncertain. Already there are special interest groups, such as the nation's farmers, who want to close the borders to foreign products. This would begin to wipe out the gains that already have been made.

Poland's reform plan is flawed. However, the flaw is not the result of its new free market policies. Rather, the flaw is due to the residual socialist policies that remain in force. □

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Government Funding Brings Government Control

by Gary McGath

One way for a government to control people is to threaten them with punishment for disobedience. Such a direct approach, though, often provokes strong opposition. A second, subtler way is to tax them, then allow them to have some money back only if they do as the government wishes. The federal government's power to exercise the second kind of control grew alarmingly on May 23, 1991.

On that day, in the case of *Rust* v. *Sullivan*, the Supreme Court ruled that the government could restrict not just what subsidized family planning clinics may do, but what they may say to their clients. According to the ruling, a regulation by the Department of Health and Human Services (HHS), which prohibits Federally funded clinics from providing information about abortion services or recommending abortion, is valid under the Constitution.

Many people on both sides saw this case as an "abortion issue." Opponents of abortion cheered; advocates of the right to choose protested against the restriction on abortion rights. In his dissenting opinion, Justice Blackmun wrote that HHS regulation "has both the purpose and the effect of manipulating [a woman's] decision as to the continuance of her pregnancy."

But in fact, the issue is not abortion but speech —specifically, speech by those who accept government subsidies. The Supreme Court's ruling upheld the principle that when the government offers funds, it may include as a condition of funding that those who receive the money refrain from disseminating certain kinds of information, or expressing certain points of view. If the regulations had stated that the clinics couldn't recommend even birth control pills—or if they had specified that *only* clinics that made abortion referrals could receive funds—the legal logic would have been the same.

Many of the critics have focused on the effect of the decision on women seeking help from the clinics, particularly women who are too poor or isolated to seek alternatives. Certainly these women have a vital interest in the case, and their options are diminished by the Court's decision. But there is no such thing as a right to be provided with information, except by the agreement of the provider. *Rust* v. *Sullivan* cuts into not the right to receive information, but the right to give it.

The central issue of rights applies to the owners of the clinics and the professionals who practice there. In giving them money, may the government properly restrict the information that they are allowed to provide? The two focal points in the issue are funding and information; abortion is involved only incidentally.

As in many issues of this type, the main debate contains a false alternative. Recipients of governmental funding assume that they have an unconditional right to the money. Opponents of abortion regard tying strings to the money as a legitimate way to implement their policy. Both of these views are seriously flawed. One seeks to ignore, the other to exploit, the negative consequences of tax subsidies.

When the government funds an activity, it will exercise control over it. As the "Wizard of Id" comic strip once put it: "Remember the golden rule. He

Mr. McGath is a software consultant in Penacook, New Hampshire.

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who has the gold makes the rules." The government must judge the qualifications of applicants on the basis of what they do, and choose to fund some and not others. The "right" to funding depends on how closely the applicant's activities coincide with the goals and criteria of the government agency giving out the money. Value-neutral funding is impossible. The more the activity bears upon matters of strong personal concern, the more obvious the value preferences in the funding will be.

We can see the same phenomenon in other areas of governmental funding. The National Endowment for the Arts provides money for works that are deemed sufficiently "artistic," according to the judgment of the officials in control of the money. The question of whether Congress or NEA officials should control that decision is merely a dispute between different branches of the government.

The more such precedents the government sets, the more it becomes protective of its power to control the beneficiaries. In the majority opinion in *Rust* v. *Sullivan*, Chief Justice Rehnquist wrote: "To hold that the Government unconstitutionally discriminates on the basis of viewpoint when it chooses to fund a program dedicated to advance certain permissible goals, because the program in advancing those goals necessarily discourages alternate goals, would render numerous government programs constitutionally suspect. When Congress established a National Endowment for Democracy to encourage other countries to adopt democratic principles, it was not constitutionally required to fund a program to encourage competing lines of political philosophy such as Communism and Fascism."

The implicit smear is ugly enough in itself, coming in an official statement by the Chief Justice. When the government permits those whom it funds to express only the official point of view, it excludes many philosophies that are not communistic or fascistic by any stretch of the imagination. But leaving this aside, his statement shows how the logic of power feeds on itself. Rather than err on the side of endangering current programs that permit the expression only of the official philosophy, the Court endorsed a further expansion of the government's power to specify the content of the activities it subsidizes.

The impact of this decision is potentially devastating. Foes of abortion see only the immediate impact of the decision, and applaud it; but the power that the Court has granted the federal government can be used equally by the Left and the Right. The HHS restrictions, and the Court's approval of them, tremendously increase the government's power to control any kind of activity that it funds. As Justice Blackmun noted in his dissent: "Until today the Court never had upheld viewpoint-based suppression of speech simply because that suppression was a condition upon the acceptance of public funds. Whatever may be the Government's power to condition the receipt of its largess upon the relinquishment of constitutional rights, it surely does not extend to a condition that suppresses the recipient's cherished freedom of speech based solely upon the content or viewpoint of that speech."

Yet in this formulation, Blackmun acknowledges that the government may call on recipients of subsidies to relinquish some of their constitutional rights. (For example, recipients of government money often are required to implement affirmative action programs, limiting their freedom to choose their employees.) *Rust* v. *Sullivan* expands this power disastrously; but the potential for the disaster existed from the day that governmental subsidies of private activity were first devised.

These subsidies, we must remember, come from taxation. To get one's money back, one must meet the government's qualifications for a subsidy. Thus, those who choose non-subsidized activities are, in effect, punished for their choices by having their money taken and not returned. Traditionally, the losers are people whose activities aren't deemed sufficiently important to the "public interest." After *Rust* v. *Sullivan*, though, the qualifications for activity in the "public interest" can include not only what one does but what one says. The government now can use the coercive power of taxation not just to benefit certain activities, but to promote certain ideas.

A New Threat

What is most frightening is the possibility of expanding Federal control of expression and information to private educational institutions that receive government money—meaning virtually all of them. Neither liberals nor conservatives have a monopoly on the desire to exercise control. Whether we see attempts to ban "racist" and

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"homophobic" courses and textbooks, or "blasphemous" and "obscene" ones, depends only on whether the politically correct Left or the fundamentalist Right acts first.

Neither side is likely to have much success in the immediate future. A major assault on our liberties always happens in stages. The first step is the establishment of a principle, and its application to one area where there is widespread support for the restriction. Next comes a period in which those who established the principle assure us that the disastrous consequences predicted by its critics won't happen. Only after people get used to the principle, and after the critics have grown less vocal, does the government follow through in a major way. It was over 20 years after the establishment of governmental funding for the arts that the first explicit regulations concerning content were passed. And, ironically, the regulations requiring "decency" in art were quite different from any that the liberal advocates of artistic subsidies would have wanted.

By the time the principle of *Rust* v. *Sullivan* incubates and comes to maturity, there's no telling what political fads will have arisen, and what kind of lobbies will be in a position to impose speech-based restrictions on funding.

The walls of academic freedom will take a long time to knock down. However, other recipients of governmental subsidies may be more vulnerable. The precedent set by the Supreme Court applies directly to the medical profession. It would be no great leap for a government agency to issue a regulation that forbids doctors who receive Medicaid or Medicare payments from discussing the option to withhold life-support with patients suffering from terminal diseases. A system of national health insurance would, of course, greatly increase the scope of this danger.

Control through funding bypasses all constitutional limitations. As Chief Justice Rehnquist argues, people still have a choice; they can decide not to accept governmental funding. The government doesn't impose penalties on them for anything they might say; it merely takes their money and gives it to people who accept restrictions on what they may say. This moves the issue to the disparaged category of economic freedom. The principle of free speech is dangerous to challenge head-on; it's much safer to act on the principle that the government may take people's money and expend it for its own purposes.

Any successful challenge to the expansion of governmental power resulting from *Rust* v. *Sullivan* must challenge both the controls and the subsidies that make them possible. It must challenge the legitimacy of taking money by force from some people to promote the ends of other people. The owners of subsidized family planning clinics want freedom of choice, but they don't want to grant freedom of choice to the people who are footing the bill—the taxpayers. They need to recognize that they can't have it both ways. When they lobbied for government funding, they invited government control. If they now want freedom, they should call for an end to Federal subsidies.

The owners of the clinics probably would argue that they would be even less free without governmental money. They would have to call on private donations to provide low-cost services; and private donors might call for similar restrictions, or even more stringent ones, before donating any money.

But private donors are making a choice concerning their own money, not someone else's. If a donor wants to give money only to organizations that meet his standards—however capricious they may seem to another person—that is his right. In the absence of governmental funding, the clinics still would be able to ask for money from anyone who *wanted* to give it, but they would not have the right to obtain money by compulsion.

To be free of governmental control, one must be independent of the government. Those who accept the idea that the government may take money from others to help them in promoting their goals are, whether they realize it or not, accepting the idea that the government can dictate their goals. Simply "reforming" the system by attempting to guarantee the independence of the recipients of the money isn't a viable solution; the government will, in one way or another, control what it subsidizes.

Senator Strom Thurmond pointed this out in 1963, when he warned against governmental subsidies to the arts: "The Supreme Court has stated that the Federal Government has the power to control that which it subsidizes, and experience proves that when the Federal Government has the power, that power is eventually exercised."

Government funding and government control of private activities go hand in hand. To keep private activity free, its financing must be kept private. □

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A REVIEWER'S
NOTEBOOK

China Misperceived

by John Chamberlain

Steven W. Mosher begins his study of *China Misperceived: American Illusions and Chinese Reality* (New York: A New Republic Book, 260 pages, $19.95 cloth) by plunging us into Nixon's dilemma of 1972. President Nixon, after dispatching Henry Kissinger to mainland China to get the feel of things, faced up to a geopolitical fact that if Moscow and Beijing were ever to make active common cause against the West, America would have a two-front struggle on its hands. To avert this possibility almost any mendacity was justified. But what Mosher calls the "cruelty and violence of the Cultural Revolution" precluded easy acceptance by Americans that Chairman Mao and Premier Zhou Enlai were anything other than monsters. Nixon's problem was, first, to convince scores of print and TV journalists that Mao and Zhou were not devils. He could then try to change the image of mainland China in the average American's eyes.

This was no easy task, given the fact that some 30 million people, Red Guards included, had died in famines that might have been mitigated. Mao and Zhou were as culpable in trying to hide evidence of famine as Stalin had been in the case of the Ukraine.

It took two huge planes to carry White House and State Department personnel and 87 print and TV journalists to Beijing with Nixon in 1972. Included among the journalists were Bill Buckley and Theodore White. Walter Cronkite, Dan Rather, and Barbara Walters were also aboard. It was Buckley who provided the inspiration for Mosher to take a close look at "the decidedly gentle treatment accorded Mao's China by Nixon's press corps."

Buckley should have been well aware of Nixon's long-term goal of separating Red China from Red Russia. But Nixon's effusiveness in greeting Mao and Zhou was gagging. And the deference paid by Nixon to the "revolutionary opera . . . the brainchild of Mao's wife, Jiang Qing, who became China's de facto cultural czar during the Cultural Revolution," was strange. Nixon had called the radical leftist SDS, or Students for a Democratic Society, "campus bums." But that was in America. Now, in his determination to ingratiate himself with Mao and Jiang Qing, he found himself "warbling" that the operatic play *The Red Detachment of Women*, which had been staged for Nixon's benefit, was "great." "It was a powerful message and intended for that . . . excellent theater and excellent dancing and music," Nixon told a reporter. And what was the "message"? Only that poor peasant daughters should run off to join the Red Army.

Theodore White of *Time* and Bill Buckley sat next to each other on the way over to China. "As White's ideological opposite," says Mosher, ". . . Buckley brought a different set of presuppositions to bear on the People's Republic of China. . . . unlike White, he believed that Nixon's overture to China was not only not in the best interests of the United States, it was positively immoral given the enormity of the crimes of those with whom Nixon would be meeting." So who was "misperceiving" what? If you believed in the fellow traveler's picture of the world, you would be on White's side. But if Red China, despite Tiananmen Square, is destined to go capitalist with the rest of the world, the big long-term "misperception" will be with the Deng Communists.

Mosher goes back to beginnings. Throughout

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the Middle Ages Marco Polo's tales of the "mysterious East" fascinated Europe. But it was not until Jesuit missionaries went to China at the turn of the 17th century that the West learned anything about China. The Jesuits hoped to convert the Chinese to Christianity. But the conversions seemed to work in reverse.

The prestige of missionaries was revived after 1928, when Kuomintang leader Chiang Kai-shek married Wellesley graduate Soong Mei-ling and announced his conversion to Methodism. With a Christian couple running China, Protestant missionaries seemed to have succeeded where the Jesuits had failed.

Pearl Buck, the daughter of missionaries, did more than anyone else to provide a picture of China acceptable to Americans. Her best-selling novel *The Good Earth*, and the movie that was made of it, reached tens of millions. Buck, says Mosher, created "a new stereotype of rural Chinese as a strong and attractive people of the soil, kind and generous toward the young, respectful toward the elderly, and dignified, even cheerful, in misfortune."

This image of the Chinese was consonant with what became known as the Yenan picture. Mao had led his long march to Yenan in northern China, a place that was duly mythologized as the capital of an agrarian people who were about to rescue China from Chiang, who had to flee the Maoists to Taiwan. It was in Yenan that the Communist Party of China perfected "the array of techniques to handle short-term visitors—parachute journalists—which they later used to such effect during Nixon's visit."

Guenther Stein of the *Christian Science Monitor* described "the men and women pioneers of Yenan" as "new humans. . . ." They constituted "a brand new well integrated society, that has never been seen before anywhere." Harrison Forman of the *New York Herald Tribune* and *London Times* was so impressed by small-scale private enterprise in Yenan that he said the Chinese Communists did not practice Communism at all. Theodore White spoke of "agrarian liberals" in his dispatches, only to have the malapropism edited out by the perceptive Whittaker Chambers, then the foreign editor of *Time*.

The Nixon trip, even with all its nonsense, was justified, but things have changed with the collapse of Communism in most of the world. There is no call for the U.S. to worry about a war on two fronts as long as the Soviets are distracted by trouble in the Baltic states and in the Ukraine and Great Russia itself. George Bush is playing it cagey—he does not make excuses for Deng and Tiananmen Square. But he does not assume the right to condemn Deng as long as there is a chance for significant change in China under Deng's successor, whoever he may be.

All things considered, Mosher has written a fascinating book. □

THE CAPITALIST SPIRIT: TOWARD A RELIGIOUS ETHIC OF WEALTH CREATION

edited by Peter L. Berger

ICS Press, 243 Kearny Street, San Francisco, CA 94108
1990 • 192 pages • $18.95 cloth

Reviewed by Raymond J. Keating

Theologians usually overlook the creation of wealth when discussing the ethics of socio-economic issues. They focus instead on wealth distribution, or more accurately *redistribution*. Since distribution, however, doesn't occur in a vacuum, the ethics of distribution have been deficient and largely distorted. After all, wealth distribution is meaningless without wealth creation first taking place.

This book takes some initial steps in redressing this neglect of creativity and production. Bringing together some prominent free market thinkers, sociologist Peter Berger has created a volume dedicated to forming a strong ethical case for capitalism.

Berger sets the tone when he states in the introduction that "[e]xcept under the most primitive conditions (a subsistence economy in a tropical paradise, for example), wealth is never given—it must be created." Such a theme is in stark contrast to the anti-capitalist, pro-socialist, zero-sum thinking prevailing among many theologians, for example, the National Council of Churches, the American Catholic bishops, and various liberation theologians. Set against the dismal, statist philosophies of such groups, *The Capitalist Spirit* is a collection of insightful and sometimes even inspiring essays.

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Professor David Novak, in his essay "Economics and Justice: A Jewish Example," sagaciously expounds upon the distribution/production relationship: "Those who produce more of what is needed by the society are given more than those who produce less. These rewards, even more than being recompense for past productivity, are incentives for future productivity. It would seem that anyone who does not at least partially correlate the economics of distribution and the economics of production is operating under an illusion of infinite supply and immediate availability."

David Novak also illustrates a very delicate and significant balance struck by the Jewish tradition. He summarizes: "By emphasizing the covenantal necessity of human mutuality before God, Jewish tradition affirmed the value of individual incentive without the glorification of individual human selfishness, and it affirmed the value of communal restraints without the glorification of collective human power." Indeed, this has been an important legacy in the West.

Perhaps the most complete exposition of a capitalist ethic in this text, however, is given to us by author Michael Novak in his "Wealth and Virtue: The Development of Christian Economic Teaching." He notes a too-often disregarded, yet critical aspect of the ethical nature of capitalism: "Many intellectuals ignore the evidence of the immense benefits, in the form of prosperity, liberty, and significant moral progress, that the capitalist economies ushered into history."

In particular, Michael Novak turns to the great Scottish Enlightenment thinkers for a moral basis of the free enterprise system. He cites the arguments of David Hume and Adam Smith "in favor of the turn toward a capitalist economy":

- "First, life in premodern rural society was circumscribed not only by poverty but also by the absence of possibilities for self-improvement and action. The Scottish intellectuals saw such possibilities in commerce."
- "Second, by ending dependency, the rise of commerce and industry would awaken the rural poor out of the slumbers of idleness."
- "Third, a commercial society is less warlike."
- "Fourth, the practices of commerce bring people together in more frequent and more complex interactions."
- "Fifth, a commercial society would mix together the ancient social classes."
- "Sixth, as market activities grow, so also do popular knowledge, skills, and specializations."
- "Seventh, markets require forms of civilized behavior: patient explanation, civil manners, a willingness to be of service, and a willingness to reach satisfactory mutual consent."
- "Eighth, the replacement of agrarian ways (with their relative isolation and taciturnity) by commercial ways (with their city bustle and rapid talk) tends to awaken one of the most precious, high, and rare forms of moral development: the civic need for the virtue of sympathy."
- "Ninth, pursuing this ideal [i.e., sympathy] helps the person of commerce to be a little more objective than others, to see a little farther, and to discern needs and possibilities that have not yet been served."

Novak recognizes a need for some "practical moral guidance" in the realm of commerce, and declares that the "best moral instruction . . . begins by raising aloft the ideal to be pursued: the exercise of God-given talents to imagine, invent, discover, and bring into widespread use the resources that God has hidden in the natural world."

In "Private Property, Ethics, and Wealth Creation," economist Walter Block also declares that the capitalist system no longer can continue to concede "the moral high ground to its detractors." He asserts that the answer lies with the libertarian philosophy. The libertarian emphasis on self-ownership, private property, voluntarism over coercivism, entrepreneurial capitalism over state capitalism, and negative rights, is intrinsic in establishing an ethic of wealth creation. Block also lays to rest the destructive belief held by some libertarians that religious belief and libertarianism are incompatible.

Due to space considerations, I merely will mention that "Early Christianity and the Creation of Capital" by Robert M. Grant and "Camels and Needles, Talents and Treasure: American Catholicism and the Capitalist Ethic" by George Weigel are well worth reading also.

Finally, in "Wealth and Whimsy: Being Rich, Producing Riches," Richard John Neuhaus, editor-in-chief of *First Things*, seeks to put this entire

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debate over a religious ethic of wealth creation into proper perspective. He warns that those who take wealth too seriously—both those "captive to their possessions" as well as "religiously driven ideologues [who promote] designs for a just economic order"—"are in danger of attributing an ultimacy to something that is, at most, prepenultimate."

Neuhaus holds to an intriguing interpretation of the Reformation as it relates to this ethical conundrum: "[I]t may be suggested that the reformers' articulation of the Pauline doctrine of grace assisted economic enterprise chiefly by underscoring the truth that worldly success does not matter that much, it does not matter ultimately. In the Calvinist tradition, economic achievement may have been motored less by its being viewed as a token of election than by the fact that a grace-based Pauline lightheartedness about worldly achievements created free space within which a variety of callings could be exercised in good conscience."

Neuhaus also comments on creativity, growth, and the discovery of possibilities, and how these relate to free persons and their participation in "God's continuing education." In this vein, he cites Dietrich Bonhoeffer, the Lutheran theologian who was put to death by the Nazis in 1945. For Christians, however, I believe that Neuhaus would have sealed his case by referring to an additional quote from Bonhoeffer's *Ethics*: "There are . . . certain economic or social attitudes and conditions which are a hindrance to faith in Christ and which consequently destroy the true character of man in the world. It must be asked, for example, whether capitalism or socialism or collectivism are economic forms which impede faith in this way."

The editor and contributors of *The Capitalist Spirit* have answered this question. Entrepreneurial capitalism, with its emphasis on freedom, creativity, and industry, is indeed no impediment to faith. □

Mr. Keating is New York Director of Citizens for a Sound Economy.

ECONOMIC POLICY AND THE MARKET PROCESS: AUSTRIAN ECONOMICS AND MAINSTREAM ECONOMICS

edited by K. Groenveld, J. A. H. Maks, and J. Muysken

North-Holland, P.O. Box 882, Madison Square Station, New York, NY 10159 • 1990 • 304 pages • $69.50 cloth

Reviewed by Jeffrey Tucker

Austrian economics, with a tradition dating back over 100 years, distinguishes itself by its insistence on using strict rules of logic to deduce economic laws that govern human action. But that isn't the source of the worldwide attention the Austrian school is now receiving. Instead, it is its association with economists who steadfastly declare that the free market is the most stable and rational means for ordering economic society. This book is a new collection of articles by leading free-market Austrians debating conventional interventionists.

For most of this century, Austrians have argued that socialism, and the endless variants of the mixed economy (democratic socialism, social democracy, planned markets), prove deficient in providing a coherent mechanism for ensuring that economic resources are used by society in the most optimal way. What's more, the Austrian case for the free market has an intellectual power that is unavoidably attractive, since it insists that economic laws apply to all societies at every stage of economic development.

The editors of this volume are all professors of economics at universities in the Netherlands and are highly sympathetic with policy positions of the Austrian school. And they enlist some well-known Austrians to help make their case.

Most of their Dutch colleagues who also contribute essays are not sympathetic—they are different breeds of social democrats. Whether they regard themselves as post-Keynesian, neoclassical, or institutionalist, they see a need for a market, but a limited one, heavily regulated, taxed, and restricted. They favor a wide variety of social welfare programs to promote "equality" and "social justice," antitrust laws, labor market restrictions, and so forth.

When these two world views clash—the free market versus social democracy—sparks some-

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times fly. Other times, the contributors just talk past each other. Although this book neither initiates nor closes the debate, the exchange herein, enlisting 20 economists in all, is a fruitful one.

Israel Kirzner launches the debate with a masterful presentation of the case for viewing the market as a process of learning, depending on a free price system, and driven by entrepreneurial discovery. Interventions in this market may generate "unanticipated side-effects," substitute "the preferences of legislators or officials in place of the wishes of the consuming public," and limit "the exploitation of opportunities for pure entrepreneurial profits."

Angus Maddison responds with bewilderment: "Kirzner's description of the market process is somewhat extreme or even mystical." He dismisses much of Kirzner's history of the 1930s economic calculation debate between Ludwig von Mises and Oskar Lange as "not very relevant." It's unfortunate that Kirzner has no opportunity to rejoin the debate.

Although not an Austrian, Yale Brozen presents one of the best empirical cases against government intervention seen in years. He covers monopoly policy, wealth redistribution, taxes, the negative consequences of an inflationary monetary policy on saving and investment, and more. It was a strategic decision to include this essay, given both Austrian tendency to rely on high theory and mainstream economists' skepticism about abstraction.

Yet Brozen's respondent, Arnold Heertje, is not impressed: "We must go back to economic theory ... it would not be too difficult to produce evidence which just 'proves' the opposite of what Brozen likes to indicate." This kind of methodological circularity can be frustrating, for it raises the question: Exactly what kind of argument for free markets, if any, will a social democrat accept?

Austrian economist Don Bellante weighs in with an outstanding case for free labor markets, pointing out the bad effects labor unions and wage controls have on labor market coordination. In the process he points to the embarrassing reality (for market opponents anyway) that unions cartelize the labor market at the expense of nonunion employees. Legislation enacted on behalf of a union has negative consequences for the entire economy.

Bellante's respondent, P. Keizer, pleads for cost-benefit appraisals of labor market intervention, although he fails to provide persuasive evidence on the benefit side of the calculus. His main argument favors a kind of democratic collectivism: The voters tolerate labor interventionism, so what's the problem? The problem is that voters are prone to vote their parochial interests at the expense of the common good, and economists are supposed to rise above that.

Moving to issues of macro-economic stability, Austrian economist Pascal Salin presents an outstanding case for dropping the entire interventionist apparatus of fiscal and monetary manipulation, on grounds that it is de-stabilizing. Especially impressive is his argument for the Austrian theory of the origins of business cycles. It points to central bank credit expansion as the source of interest rate manipulation that distorts investment decisions. His respondent, J. C. Siebrand, is aghast at Salin's policy proposals and tosses out a series of one–liners against the market that have the ring of clichés rather than scientific analysis.

Another exchange occurs between free-banking advocate Roland Vaubel and central banker G. A. Kessler. And again the substantive arguments are on Vaubel's side, and his opponent doesn't seem up to the task of refuting his case against central banking.

The volume also contains an interesting discussion of the merits and flaws of European economic integration.

Part of the difficulty in such debates is that the two sides use different vocabularies. For example, when Austrians speak of competition, they mean an open-ended and unrestricted process of discovery. The social democrats see competition as an end-state to which the market must be made to conform. One wishes that the editors had taken notice of such difficulties and insisted on more discussion of this issue. These problems are compounded by the ideological rigidity of the mainstream economists presented here. But this doesn't detract from the merits of the debate. Let's hope the future presents opportunities for many more such exchanges, and that the Austrian school economists continue to win. □

Mr. Tucker is a fellow of the Ludwig von Mises Institute.

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THE CULTURE OF SPENDING: WHY CONGRESS LIVES BEYOND OUR MEANS

by James L. Payne

ICS Press, 243 Kearny Street, San Francisco, CA 94108
1991 • 221 pages • $24.95 cloth

Reviewed by William H. Peterson

Harry L. Hopkins, adviser to F.D.R., reportedly said in 1938, "We will spend and spend, and tax and tax, and elect and elect."

Hopkins' thought is masterfully mirrored in this work by political analyst James L. Payne. Payne, who has taught political science at Wesleyan, Yale, Johns Hopkins, and Texas A&M, is a research fellow at the Independent Institute in Oakland, California, and head of his own Sandpoint, Idaho, research firm, Lytton Research and Analysis.

Payne sees Congress as sinking in a whirlpool of "spend and spend" with the taxpayer drowning along with the Congressmen, with the nation and the media pretty much in the dark as to whys and wherefores, and with the aftermath of a long-ongoing spending orgy reflected in nine post-World War II recessions and a 90 percent drop in the value of the dollar in the last half-century.

One thing wrong, says the author, is the widespread belief in government efficacy. Most people and Congressmen believe that government can solve any social or economic problem that comes along. Call it faith in government omnipotence. For however misplaced that faith, Payne's examples of government *in*efficacy, including the boomerang effects of farm subsidies and the War on Poverty, add up to proof positive of the bedrock incompetence and tragic human waste of the Welfare State.

Still, perhaps Payne's most surprising argument is his observation that blind faith in government has deep historical roots. Payne recalls what happened after 313 A.D. when Constantine made Christianity a lawful religion. Church leaders preached that rulers were always right and should be obeyed. As a reward, the government subsidized church leaders and carried out persecutions of dissenters on their behalf. The pattern repeated itself in the 16th century in the Geneva theocracy under John Calvin.

To be sure, modern separation of church and state has somewhat ameliorated the creed of government omnipotence. Nonetheless, the American clergy, apart from the American people, is hardly noted for its libertarianism. In any event, what the people and Congress ought to hear again and again is Payne's refreshing opposite contention to notions of government efficacy: "Government makes problems worse."

Similarly refreshing is Payne's play on opportunity costs as a means of getting at the deep-seated idea that government money is somehow "free," almost manna from heaven. This free-lunch dream helps explain the proliferation of Washington offices and high-priced lobbyists maintained by many states and cities. Governors and mayors want to be sure that they get their cut of the swag, from new post office buildings to "free" harbor-dredgings—not counting grants-in-aid to states and localities already running in excess of $100 billion year after year.

What to do?

Be wary of legalisms, says the author, noting how a Colombian constitutional provision for a balanced budget has long been blithely ignored by the politicians in Bogota. Similarly, he calls attention to our own Congressional Budget and Impoundment Control Act of 1974 with its creation of a watchdog Congressional Budget Office, all of which has come to naught in terms of arresting our ingrained culture of spending.

By the same token, Dr. Payne recalls George Bush's 1988 campaign pledge of "no new taxes." He also recollects the Gramm-Rudman-Hollings Act of 1985 that bravely promised a balanced budget by 1991. Alas, 1991 is here with more than $600 billion piled onto the national debt in fiscal 1991 and 1992, with that debt officially projected to exceed $4 trillion by December 1992. Our red ink runneth over.

Well, if legalisms aren't the answer to undoing the spending culture, what is? James Payne's main response is term limitations in Congress. He thinks senior Congressmen by fastening themselves into key committee chairmanships wield too much power. He cites 25-termer Jamie Whitten, chairman of the House Appropriations Committee, as a case in point.

The Payne response is welcome but it still leaves unanswered the power of legions of Washington lobbyists, armed with oodles of PAC (political action committee) money. Too, there's the power of that unelected fourth branch of government, the

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bureaucracy, two-million strong, with highly influential tenured agency officials who survive one Administration after another.

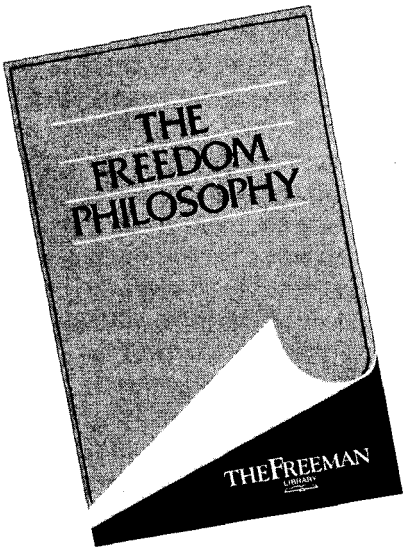
I recommend this Payne book for its probing look inside dark fiscal closets atop Capitol Hill. Yet I wish he had expanded on his call for a "Second Madisonian Revolution." For it takes two to tango: The problem is not just the free-spending, devil-may-care Congressman but, as the late Lem Boulware drummed into me, his freely receiving, vote-giving constituent or, by the same token, that constituent's interest group, from the organized worker to organized farmer to organized teacher to organized veteran to organized doctor to organized lawyer to organized Hispanic to organized senior citizen to organized . . . what-have-you.

Our Welfare-State tango glides along to the beat of spend-and-spend, which means get-and-get, with the tax-and-tax part woefully forgotten or misunderstood under the seductive music of tax-the-rich.

The need, in sum, is education, essentially economic education on the iron law of no free lunch. Educational mission impossible? Let's begin. There's too much at stake. □

Dr. Peterson, adjunct scholar at the Heritage Foundation, is the Lundy Professor of Business Philosophy at Campbell University, Buies Creek, North Carolina.

The Freedom Philosophy



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